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Exploring the relationship between corporate governance and firm value: evidence from LQ45 companies (2010-2014)

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ABSTRACT

Companies listed in the LQ45 Index in Indonesia are considered to have good and stable performance. However, the influence of the proportion of independent commissioners, the size of the audit committee, leverage, and profitability on firm value still requires empirical research to provide a clearer picture. This study aims to examine the impact of these variables on firm value for companies listed in the LQ45 Index during the period 2010-2014. A quantitative method with panel data regression was used, and the sample was selected using purposive sampling based on the criteria of companies consistently listed in the LQ45 Index for five consecutive years. The independent variables studied include the proportion of independent commissioners, the size of the audit committee, leverage, and profitability, while firm value is the dependent variable. The results show that, on a partial basis, these variables do not have a significant effect on firm value, with probability values above 0.05. However, simultaneously, the four variables have a significant impact on firm value, with probability values below 0.05, indicating that these factors work together in influencing firm value. These findings indicate the importance of focusing on corporate governance and financial structure as a whole, even though these variables do not have a direct partial impact. This study provides insights for investors to consider external factors and economic policies that may have a greater effect on firm value.

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Introduction

Firm value has a very important significance in the business world because it reflects the level of success and overall performance of the company (Husain & Sunardi, 2020); (Jihadi et al., 2021). For shareholders, firm value is a key indicator of profit potential and investment stability, because the higher the firm value, the greater the opportunity to obtain optimal returns (Akhmadi & Januarsi, 2021). On the other hand, for management and internal parties, firm value is a measure of business sustainability, which shows the company's ability to create long-term profits, attract investors, and survive amid market competition (Ahmad, 2024). Thus, firm value not only reflects financial achievement, but also reflects the effectiveness of business strategy, reputation in the market, and future growth prospects (Purbawangsa et al., 2020); (Li et al., 2020).

Companies listed on the LQ45 Index are often the top choice in research due to their superior characteristics that reflect good quality and performance in the Indonesian capital market. These companies have high liquidity, which means their shares are actively traded, thus reflecting great investor interest (Hatane

et al., 2020). In addition, they also have large market capitalisation, indicating significant enterprise value and attractiveness to both institutional and retail investors (Nasution & Ulpah, 2023). In addition, companies in the LQ45 Index are generally well-managed, which is reflected in their ability to maintain stability, growth, and competitiveness in the market (Putri & Prajawati, 2024). With these characteristics, companies in LQ45 are relevant research objects to explore aspects of financial performance, business strategy, as well as other factors that influence the success of the company.

Internal factors play an important role in influencing firm value, as they reflect conditions and performance originating from within the organisation itself (Tannady et al., 2023). One of the main factors is corporate governance, which involves good management mechanisms, policies and practices to ensure transparency, accountability and sustainability of the company (Efunniyi et al., 2024). In addition, leverage or the level of debt use in the financial structure is also an important factor, as it reflects how the company manages financial risk and maximises returns for shareholders (Olaniyan et al., 2020). Profitability, as an indicator of a company's ability to generate profits, is a major concern as it reflects the company's operational efficiency and competitiveness in the market (Lim & Rokhim, 2021). These three factors are interrelated and provide a comprehensive picture of internal performance that contributes directly to increasing firm value.

Good corporate governance is inseparable from the important role of independent commissioners and audit committee size in ensuring transparency and accountability (Ridho & Djamil, 2023). An adequate proportion of independent commissioners is crucial as they act as neutral watchdogs, safeguarding shareholders' interests and ensuring management runs the company's operations in accordance with good governance principles (Abbas et al., 2021). On the other hand, the size of the audit committee also contributes significantly, as this committee is responsible for monitoring the integrity of financial statements, internal controls and regulatory compliance (Wehrhahn & Velte, 2024). This governance complexity suggests that an effective oversight structure can minimise conflicts of interest, increase investor confidence, and support the achievement of the firm's strategic objectives, ultimately contributing to an increase in overall firm value (Onguka et al., 2021).

The challenges in implementing corporate governance in Indonesia are still significant, as not all companies have good governance in accordance with international standards (Syofyan & Putra, 2020). In many cases, the role of independent commissioners has not been fully optimised due to limitations on the independence, competence or engagement required to carry out effective oversight. In addition, the size and function of the audit committee is also often not optimal, either due to a lack of qualified human resources or a limited scope of supervision (McLaughlin et al., 2021). These conditions result in the influence of independent commissioners and audit committees on firm value in some companies still not reaching their best potential. Therefore, efforts to improve the quality of governance, including strengthening the role of internal supervisors, are an urgent need to encourage sustainable growth in firm value in Indonesia.

Leverage and profitability are internal factors that have a significant influence on firm value (Radja et al., 2020). Leverage, or the level of debt usage in the capital structure, can be an effective tool to increase shareholder returns if used optimally. However, excessive use of debt can increase financial risks, such as liquidity difficulties or even bankruptcy, which in turn can reduce firm value (Etim et al., 2022). On the other hand, profitability reflects a company's ability to generate profits from its assets, which directly contributes to increasing investor confidence and the company's market value (Pangestuti et al., 2022). The interaction between leverage and profitability is important, because companies with high profitability tend to be better able to manage leverage risk than companies with low profits. Therefore, prudent leverage management and a focus on increasing profitability are key in driving sustainable firm value.

Agency theory, stewardship theory, and equity theory offer relevant conceptual frameworks to understand the relationship between the variables in the study. Agency theory highlights the conflict of interest between management (agents) and company owners (principals), particularly in the management of leverage and corporate governance. In this context, mechanisms such as independent commissioners and audit committees serve to reduce such conflicts and ensure managerial decisions are aligned with shareholders' interests, thereby increasing firm value. Stewardship theory, on the other hand, assumes that managers act as responsible stewards for the interests of the firm. This is relevant to profitability, as good managers will focus on efficiency and financial performance to maximise firm value. Meanwhile, equity theory highlights the importance of fairness in the distribution of returns, both to shareholders and to employees. This theory is relevant in ensuring that companies are able to maintain fair relationships with various stakeholders, which indirectly supports sustainability and increased firm value.

Previous research relevant to this topic has examined the influence of corporate governance and financial factors on firm value. For example, a study by Setiawan et al., (2023) found that the proportion of independent commissioners has a significant positive effect on firm value, due to their role in increasing corporate

transparency and accountability. In addition, a study conducted by Khoirunnisa & Aminah (2022) showed that a larger audit committee size tends to increase the effectiveness of internal controls, which has an impact on increasing investor confidence and firm value. These results are in line with corporate governance theory which states that a good oversight structure is a key factor in creating sustainable value for shareholders.

However, there are studies that show conflicting results regarding the effect of leverage and profitability on firm value. Research by Herdiani et al., (2021) shows that high leverage actually has a negative influence on firm value, because it increases financial risk and uncertainty for investors. On the other hand, a study by Aisyah & Sartika (2022) found that profitability does not always have a significant effect on firm value, especially in sectors with high market fluctuations, such as companies in the LQ45 Index. This difference in findings indicates the need for further research to understand the dynamics of these factors, especially in the context of companies listed on the LQ45 Index during the 2010-2014 period.

Although various studies have been conducted to examine the effect of corporate governance and financial factors on firm value, there are still relevant research gaps to be explored. Most of the previous studies tend to examine variables separately or only in certain industry sectors, thus not providing a holistic picture of the interaction between the proportion of independent commissioners, audit committee size, leverage, and profitability in determining firm value. In addition, previous studies often use samples of companies outside the LQ45 index, which have different characteristics from companies in this index, such as high liquidity, large market capitalisation, and more established management. Thus, there are not many studies that specifically examine how these variables affect firm value in the context of leading companies in the LQ45 Index in a certain period, such as 2010-2014.

The urgency of this research is also reinforced by the conflicting results in previous studies, especially regarding the effect of leverage and profitability on firm value. This difference in findings suggests that the context of time, sample, and company characteristics may affect research results. Therefore, this study aims to fill the gap by empirically analysing the effect of the proportion of independent commissioners, audit committee size, leverage, and profitability on firm value in companies listed on the LQ45 Index for the period 2010-2014.

The purpose of this study is to empirically analyse the effect of the proportion of independent commissioners, audit committee size, leverage, and profitability on firm value in companies listed in the LQ45 Index during the period 2010-2014. This study aims to understand the extent to which internal corporate factors, such as good governance and financial performance, affect the market value of companies listed in the LQ45 index, which is known for its high liquidity, large market capitalisation, and more stable management. Thus, this study is expected to provide insight into the importance of managing corporate governance structures and financial factors in increasing firm value, as well as making a practical contribution to managerial and investment decision making.

Method

This study uses a quantitative approach with empirical research methods to analyse the effect of the proportion of independent commissioners, audit committee size, leverage, and profitability on the value of companies listed in the LQ45 Index in the 2010-2014 period. The quantitative approach was chosen because it can provide objective and measurable data regarding the relationship between the variables tested (Mohajan, 2020). This research focuses on collecting and analysing secondary data taken from the annual reports of companies listed on the Indonesia Stock Exchange (IDX) for the last five years, namely the period 2010 to 2014.

The population in this study are companies listed in the LQ45 Index during the period 2010-2014. The LQ45 Index was chosen because it includes companies with large market capitalisation, high liquidity, and relatively better management compared to other companies on the IDX. The sampling technique used is purposive sampling, which requires companies to meet certain criteria, such as being fully registered during the 2010-2014 period and having complete data related to the variables studied. The number of samples used in this study were 23 companies which were selected based on these criteria.

The dependent variable in this study is firm value, which is measured using the Price to Book Value (PBV) ratio, because PBV is considered to reflect market perceptions of the company's performance and prospects. While the independent variables consist of the proportion of independent commissioners, audit committee size, leverage, and profitability. The proportion of independent commissioners (X1) is measured by calculating the percentage of independent commissioners to total commissioners, audit committee size (X2) is measured based on the number of audit committee members, leverage (X3) is measured by the Debt to Equity Ratio (DER), and profitability (X4) is measured using Return On Equity (ROE). Data for each of these variables is obtained from the company's annual financial statements available on the IDX. This study does not use certain control

variables because the main focus is on the relationship between corporate governance and financial performance on firm value.

Data analysis in this study uses panel data regression which allows to test differences between time and between companies simultaneously. Determining the panel data regression model involves several systematic steps to ensure that the model chosen is suitable for the data characteristics and research objectives. The following is an explanation of the steps: 1) Chow Test. This test is used to determine whether the Common Effect (Pooled Least Squares) or Fixed Effect model is more appropriate for panel data. The Common Effect model assumes that all data has the same characteristics without taking into account differences between individuals or time, while the Fixed Effect model considers specific differences between individuals (companies) in the data. If the test results show a probability value (p-value) below the significance level of 0.05, then the Fixed Effect model is better to use; 2) Hausman Test. After the Fixed Effect model is selected through the Chow Test, the next step is the Hausman Test to determine whether the Fixed Effect or Random Effect model is more appropriate. This test evaluates the consistency of parameter estimates between the two models. If the test results show a probability value (p-value) below the significance level of 0.05, then the Fixed Effect model is chosen because the estimates are more consistent. Conversely, if the probability value is above 0.05, then the Random Effect model is more suitable; 3) Lagrange Multiplier (LM) Test. This test is performed if the Chow Test indicates that the Common Effect model is more appropriate, but there is a suspicion that the Random Effect model can be used. The LM test evaluates whether the Random Effect model is better than the Common Effect. If the probability value (p-value) of the test results is below the significance level of 0.05, the Random Effect model is selected; 4) Classical Assumption Test. After the best model is determined (either Fixed Effect or Random Effect), classical assumption testing is carried out to ensure the validity of the regression model. Classical assumptions include: (a) Multicollinearity test to ensure that there is no strong linear relationship between the independent variables; (b) Heteroscedasticity test to ensure that the residual variance is homogeneous; (c) Autocorrelation Test to ensure that the residuals are not serially correlated. Normality Test to ensure that the residuals are normally distributed.

In addition, a significance test is conducted to determine whether the effect of each independent variable on firm value is statistically significant. By using this method, this study aims to provide empirical evidence regarding the influence of corporate governance factors and financial performance on firm value in the Indonesian capital market.

Results and Discussions

Results

Table 1 <Descriptive Statistical Test Results>

	PBV?	PDKI?	UKA?	DER?	ROE?
Mean	5.094348	0.456562	3.686957	1.918174	26.11504
Median	3.530000	0.400000	3.000000	0.800000	22.58000
Maximum	45.03000	1.000000	8.000000	10.02000	125.8100
Minimum	0.810000	0.166667	2.000000	0.050000	6.710000
Std. Dev.	7.350921	0.156565	1.134508	2.598058	19.53831
Skewness	4.242651	1.253064	1.685316	1.742935	3.323534
Kurtosis	20.41578	4.618356	5.642617	4.473788	15.80118
Jarque-Bera	1798.359	42.64468	87.90114	68.63268	996.9241
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	585.8500	52.50462	424.0000	220.5900	3003.230
Sum Sq. Dev.	6160.108	2.794448	146.7304	769.4893	43519.01
Observations	115	115	115	115	115
Cross sections	23	23	23	23	23

Source: data processed by EVIEWS 9

From the results of the descriptive statistical test in table 4.1. It can be seen that the minimum value for the variable proportion of the independent board of commissioners (PDKI) is 0.166667 and the maximum is 1.000000, with an average value of 0.456562 with a standard deviation of 0.156565. The highest value was owned by Unilever Indonesia Tbk (UNVR) in 2010 and 2011, while the lowest value was owned by Adaro Energy Tbk (ADRO) in 2010 and 2011.

The Audit Committee Size variable (UKA) has a minimum value of 2.000000 and a maximum of 8.000000, with an average value of 3.686957 with a standard deviation of 1.134508. The highest value is owned by Bank

BRI (BBRI) in 2012 and 2013, while the lowest value is owned by Semen Indonesia (Persero) Tbk (SMGR) in 2010.

The Debt-to-Equity Ratio (DER) variable has a minimum value of 0.050000 and a maximum of 10.02000, with an average value of 1.918174 with a standard deviation of 2.598058. The highest value was owned by BBRI in 2010 and the lowest value was owned by Kalbe Farma Tbk in 2013.

The Return on Equity (ROE) variable has a minimum value of 6.710000 and a maximum of 125.8100, with an average value of 26.11504 with a standard deviation of 19.53831. The highest value is owned by Unilever Indonesia Tbk (UNVR) in 2013 and the lowest value is owned by Adaro Energy Tbk (ADRO) in 2014.

Panel Data Regression Equation Estimation

The three of models that have been estimated, which model is most appropriate for the research objectives will be selected. There are three tests that can be used as tools in selecting panel data regression models (CE, FE or RE) based on the characteristics of the data, namely: F Test (Chow Test), Hausman Test and Langrangge Multiplier Test (LM).

Chow Test

Testing to select the Pooled Model and Fixed Effect Model is done using the Chow-test or Likelihood ratio test, namely: H0: the model follows the Pool Least Square Model dan H1: the model follows the Fixed Effect Model

Table 2 <Chow Test Results>

Redundant Fixed Effects Tests
Pool: DATADAVID2
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.912745	(22,88)	0.0000
Cross-section Chi-square	200.720879	22	0.0000

Source: data obtained by EViews 9

Basis for decision making: If the probability (sig value) > 0.05 then H0 is not rejected and If the probability (sig value) < 0.05 then H0 is rejected. Conclusion: Because Prob = 0.000 <0.05 then H0 is rejected and H1 is accepted so that the Model follows the Fixed Effect Model.

Uji Hausman

This test is to choose between Fixed Effect or Random Effect. This Hausman test is by comparing the probability of X2 to α (1%, 5%, or 10%).

Table 3 <Hausman Test Results>

Correlated Random Effects - Hausman Test
Pool: DATADAVID2
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. df.	Prob.
Cross-section random	152.748003	4	0.0000

Source: data obtained by EViews 9

The null hypothesis of the Hausman test: H0: Random Effect Model and H1: Fixed Effect Model Decision-making basis: If the probability (sig value) > 0.05 or - t table < t count < t table then H0 is not rejected. If the probability (sig value) < 0.05 or t count < - t table or t count > t table then H0 is rejected. Conclusion: Since Prob = 0.0000 < 0.005, H0 is rejected and H1 is accepted, so the model follows the Fixed Effect Model.

Due to the results of the Chow test and Hausman test which select the Fixed Effect Model, the Lagrange Multiplier Test (LM) is not required. Therefore, the authors do not conduct the Lagrange Multiplier Test (LM) test.

Classical Assumption Testing (Multicollinearity and Heteroscedasticity)

Multicollinearity Test

The presence or absence of multicollinearity can be seen from the correlation coefficient value greater than 0.90. Conclusion: Based on the correlation values, which are all below 0.90, it is concluded that there is no multicollinearity between the independent variables.

Table 4 <Multicollinearity Test Results>

	PDKI	UKA	DER	ROE
PDKI	1.000000	-0.001678	0.342651	0.396931
UKA	-0.001678	1.000000	0.433711	0.025589
DER	0.342651	0.433711	1.000000	0.004961
ROE	0.396931	0.025589	0.004961	1.000000

Source: data obtained by EViews 9

Heteroscedasticity Test

Table 5 <Heteroscedasticity Test Results>

Heteroskedasticity Test: White			
F-statistic	1.562934	Prob. F (4,110)	0.1893
Obs *R-squared	**6.184422**	Prob. Chi-Square (4)	**0.1858**
Scaled explained SS	59.13908	Prob. Chi-Square (4)	0.0000

Source: data obtained by EViews 9

Basis for Decision Making: H0: No heteroscedasticity (Homoskedasticity) and H1: There is heteroskedasticity (Heteroskedasticity). If α = 5%, then reject H0 if obs *R-square > X2 or P-value < α. Conclusion: The output results show the Obs *R-squared value is 6.184422 while the probability value (chi-square) is 0.1858 (greater than α = 0.05), thus we can accept the null hypothesis that the data does not contain heteroscedasticity problems.

Statistical Testing and Measurement of Model Accuracy

Test t (Partial)

Table 6 <T Test Results>

Dependent Variable: PBV?
Method: Pooled Least Squares
Date: 01/11/16 Time: 11:36
Sample: 2010 2014
Included observations: 5
Cross-sections included: 23
Total pool (balanced) observations: 115

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PDKI?	-3.418374	2.599583	-1.314970	0.1919
UKA?	-0.216567	0.360282	-0.601103	0.5493
DER?	0.016088	0.182187	0.088304	0.9298
ROE?	0.017320	0.019211	0.901610	0.3697
C	6.970337	1.718413	4.056265	0.0001

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.967923	Mean dependent var	5.094348
Adjusted R-squared	0.958446	S.D. dependent var	7.350921
S.E. of regression	1.498474	Akaike info criterion	3.848741
Sum squared resid	197.5973	Schwarz criterion	4.493203
Log likelihood	-194.3026	Hannan-Quinn critter.	4.110325
F-statistic	102.1310	Durbin-Watson stat	1.704122
Prob(F-statistic)	0.000000		

Source: data obtained by EViews 9

Hypothesis: H0: the independent variable partially has no significant effect on the dependent variable and H1: the independent variable partially has a significant effect on the dependent variable. Basis for decision making: If the probability (sig value) > 0.05 or - t table < t count < t table then H0 is not rejected. If the probability (sig value) < 0.05 or t count < - t table or t count > t table then H0 is rejected

Decision: 1) In the table above, the sig value of the PDKI variable = 0.1919> 0.05 so that H0 is not rejected, which means that the independent variable PDKI partially has no significant effect on the PBV variable; 2) In the table above, the sig value of the UKA variable = 0.5493> 0.05 so that H0 is not rejected, which means that the UKA independent variable partially has no significant effect on the PBV variable; 3) In the table above, the sig value of the DER variable = 0.9298> 0.05 so that H0 is not rejected, which means that the independent variable DER partially has no significant effect on the PBV variable; 4) In the table above, the sig value of the ROE variable = 0.3697> 0.05 so that H0 is not rejected, which means that the independent variable DER partially has no significant effect on the PBV variable.

F Test (Simultan)

Table 7 <F Test Results>

R-squared	0.967923	Mean dependent var	5.094348
Adjusted R-squared	0.958446	S.D. dependent var	7.350921
S.E. of regression	1.498474	Akaike info criterion	3.848741
Sum squared resid	197.5973	Schwarz criterion	4.493203
Log likelihood	-194.3026	Hannan-Quinn critter	4.110325
F-statistic	102.1310	Durbin-Watson stat	1.704122
Prob(F-statistic)	0.000000		

Source: data obtained by EViews 9

Hypothesis: H0: the independent variables together have no significant effect on the dependent variable and H1: the independent variables together have a significant effect on the dependent variable. Decision-making basis: If the probability (sig value) > 0.05 or F count < F table then H0 is not rejected. OtherwiseIf the probability (sig value) < 0.05 or F count > F table then H0 is rejected. Decision: In the table above, the F stat value = 102.1310 and sig value = 0.0000 <0.05, so H0 is rejected, which means that the independent variables together have a significant effect on the dependent variable PBV.

Determination Test (R2)

Table 8 <Determination Test Results (R2)>

R-squared	0.967923	Mean dependent var	5.094348
Adjusted R-squared	0.958446	S.D. dependent var	7.350921
S.E. of regression	1.498474	Akaike info criterion	3.848741
Sum squared resid	197.5973	Schwarz criterion	4.493203
Log likelihood	-194.3026	Hannan-Quinn critter	4.110325
F-statistic	102.1310	Durbin-Watson stat	1.704122
Prob(F-statistic)	0.000000		

Source: data obtained by EViews 9

The R square value = 0.967923 from the table above shows that 96.79% of the variance in PBV can be explained by changes in the PDKI, UKA, DER and ROE variables. The remaining 3.21% is explained by other factors outside the model.

The effect of the proportion of the independent board of commissioners (PDKI) on firm value

The independent board of commissioners is an external member of the company who has no role in the company's operations so that the supervision and evaluation process can run well and also prevent fraud. The board of commissioners plays a role in carrying out the company's internal supervisory function to support accountability.

In direct testing, the variable proportion of the independent board of commissioners has no effect on firm value, this is indicated by the p-value (Prob) 0.1919> 0.05. The coefficient value is -3.418374 or -341.83%. The relationship between the proportion of the independent board of commissioners and firm value is opposite, meaning that the more the proportion of the independent board of commissioners increases, the more the company value decreases. Conversely, if the proportion of the independent board of commissioners is smaller, it allows the company value to get better (Wardoyo & Utami, 2024).

This is inconsistent with research conducted by Masriani et al., (2022) showing that the proportion of independent commissioners does not significantly affect firm value. This may be due to the fact that the independent board of commissioners has not functioned as a supervisor in the company, is only used as a fulfillment of the requirements for public companies, and has not been a consideration for the existence of an independent board of commissioners by investors in making investment decisions.

While independent commissioners aim to improve good corporate governance, in practice, their effectiveness in influencing firm performance often depends on the quality of implementation. In companies listed in the LQ45 index, governance standards are usually relatively good, but the role of independent commissioners may only be a formality and lack significant impact on strategic decisions. This could be due to the limited authority of independent commissioners to oversee or exert direct influence on company operations.

Firm value is more often influenced by factors directly related to financial performance, such as profitability, growth, and innovation. In LQ45 companies, which generally have large market capitalisation and high liquidity, investors may focus more on key financial metrics rather than governance elements such as the proportion of independent commissioners. As such, the influence of PDKI on firm value becomes less apparent, especially when other variables such as profitability (ROE) or leverage are more dominant.

Companies included in the LQ45 index usually fulfil the governance requirements required by regulators, including having a minimum proportion of independent commissioners. However, this regulatory compliance does not necessarily mean that independent commissioners are able to contribute significantly to the company's strategic decisions. In some cases, independent commissioners may simply fulfil administrative requirements without actually playing an active role in enhancing firm value. This suggests that formal governance does not always align with expected performance outcomes, so the presence of independent commissioners does not significantly affect firm value.

The effect of audit committee size (UKA) on firm value

The Audit Committee has become a common component in the corporate governance structure of public companies. In general, this committee functions as a supervisor of the process of making financial reports and internal supervision. With good internal control and financial reports, it is expected to increase investor confidence in the company, and is expected to increase company value. However, this is not supported by the results of the research conducted, in direct testing, the audit committee size variable has no effect on firm value, this is indicated by a p-value (Prob) of 0.5493> 0.05. the relationship between audit committee size and firm value is opposite, meaning that the more the size of the audit committee increases, the more the company value will decrease. Conversely, if the audit committee size gets smaller, it allows the company value to get better, with a coefficient value of -0.216567 or -21.66%.

This is consistent with research conducted by Natasha (2021) and Munazar (2022), who found no relationship between audit committee size and firm value. This may be due to the fact that the audit committee has not functioned optimally in the company, namely the audit committee has not been able to supervise, evaluate, provide recommendations on findings and internal control systems that must be carried out to improve company performance. The existence of a new audit committee is used as a fulfillment of the requirements / regulations that must be met by every public company.

The audit committee is an important element in corporate governance as it is tasked with ensuring the integrity of financial statements, regulatory compliance, and risk oversight. However, in companies listed on the LQ45 index, the size of the audit committee may not directly affect firm value because the effectiveness of the committee is determined more by the quality of its members and functions, not the number of members. If audit committee members do not have sufficient competence or their role is only a formality, the effect of audit committee size on firm value becomes insignificant.

Firm value is often determined by operational and financial performance rather than structural elements such as audit committee size. Investors tend to pay more attention to indicators such as revenue growth, profitability, and market prospects than governance elements that have no direct impact on financial results. This is especially true for companies in the LQ45 index, which generally fulfil minimum governance standards. Therefore, a larger audit committee size does not necessarily provide additional confidence to investors or result in an increase in firm value.

Most companies in the LQ45 index have complied with the audit committee regulations, including the minimum number of members. However, in some cases, this compliance only fulfils the formal aspect without any real improvement in the quality of oversight. A larger audit committee size may also create coordination challenges and lengthen the decision-making process, which may ultimately reduce the committee's effectiveness. Thus, while audit committee size is an important aspect of corporate governance, its impact on firm value is likely to be muted if not accompanied by improvements in the quality and efficiency of the committee's work.

The effect of leverage (DER) on firm value

The results showed that leverage has no effect on firm value. This finding is in line with the study results from (Farizki et al., 2021; Muharramah & Hakim, 2021). Companies listed in the LQ45 index generally have a stable

financial structure and a good reputation in the capital market. Leverage, which reflects the use of debt in corporate funding, is often already at an optimal level in these companies. Investors may already consider the leverage level of these companies as reasonable and does not have an additional impact on the value of the company. As a result, fluctuations in leverage do not have a significant effect on investor perceptions or the market value of the company.

Firm value is more often influenced by other factors that are more directly related to firm performance, such as profitability (ROE), growth, and operational efficiency. High leverage can show courage in taking risks for expansion, but it can also increase financial risk. However, in LQ45 index companies, which generally have strong financial fundamentals, the leverage factor may have been well managed so that its impact on firm value is minimal. Investors may focus more on the company's ability to generate profits than the debt structure used.

For investors, a high or low level of leverage is not always a leading indicator of a company's value. Many investors in the capital market pay more attention to future prospects, innovation, and the company's ability to provide dividends or share price appreciation. In companies listed on the LQ45 index, the use of debt that is not excessive or too aggressive makes leverage a less significant variable in influencing the perception of firm value. In addition, strict regulations on large companies ensure that leverage is well managed so that it does not pose a significant risk.

The effect of profitability (ROE) on firm value

The test results show that profitability has no effect on firm value. This is in line with the findings of (Hidayat & Khotimah, 2022; Putra & Gantino, 2021; Putranto et al., 2022) which states that there is no effect of profitability on firm value. Profitability, as measured through ratios such as Return on Equity (ROE), is often considered a key indicator of company performance. However, in the context of companies in the LQ45 index, profitability may not directly affect firm value as investors already consider these companies to have relatively stable profitability. Other factors such as growth prospects, innovation, or market share tend to be investors' main concerns in assessing firm value, making profitability less significant in their analyses.

Investors focusing on large, well-established companies in the LQ45 index often see the value of a company from its long-term growth potential, not just its short-term profitability performance. Companies with high profitability, but without a clear expansion or innovation strategy, may not attract investors' interest. Conversely, companies with moderate profitability but strong growth prospects, such as increased market share or product diversification, may be more valued by the market. This explains why profitability is not always directly correlated with firm value.

Firm value is often influenced by market expectations of macroeconomic conditions, regulation or industry trends, which may reduce the significance of profitability as a single factor. In addition, investors may already factor profitability into the share price of companies in the LQ45 index, so small fluctuations in profitability do not have a large impact on firm value. External factors, such as changes in government policies or global market conditions, may also affect firm value more than the level of profitability achieved in a given period.

Effect of the proportion of independent commissioners (PDKI), audit committee size (UKA), leverage (DER), profitability (ROE) on firm value

Simultaneous test analysis (F test), used to test whether together all independent variables (PDKI, UKA, DER, and ROE) have a significant influence on the dependent variable (firm value / PBV) (Amalia et al., 2023; A. R. Putra et al., 2023). From the F test, it is known that the p-value (Prob) is 0.000 <0.05, so H0 is rejected, which means that together there is a significant influence between all independent variables (PDKI, UKA, DER, and ROE) on the dependent variable (firm value / PBV). This indicates that the independent variables are real explanatory factors for variations in the independent variable.

The proportion of Independent Commissioners (PDKI) and the size of the Audit Committee (UKA) play an important role in ensuring good corporate governance practices. A high PDKI reflects more objective oversight of management, which can enhance investor confidence and the company's credibility. Likewise, a larger audit committee tends to have a better capacity to identify and mitigate financial risks as well as ensure the transparency of financial reporting. When these two factors are effectively implemented, they can create a conducive environment for improving firm value through strengthening market trust.

Leverage reflects the extent to which a company uses debt as a source of funding. When used optimally, leverage can increase firm value by taking advantage of the tax shield from interest expenses. In addition, moderate leverage indicates management's willingness to take risks for expansion or profitable investment projects, which can boost investor confidence. However, it is important to maintain leverage at a level that is not too high to avoid bankruptcy risks, ensuring that investors perceive the company as stable and worthy of investment.

Profitability, measured by Return on Equity (ROE), is a key indicator of a company's ability to generate profit from invested capital. A high level of profitability not only reflects operational efficiency but also demonstrates the company's growth potential in the future. Investors tend to view profitability as a reflection of the success of the business strategy implemented by management. When a company successfully increases its profitability, it is often followed by a rise in stock prices, ultimately increasing firm value.

Overall, the significant impact of PDKI, UKA, leverage, and profitability on firm value indicates that a combination of good governance, optimal capital structure, and solid financial performance can enhance the company's appeal to investors, while also strengthening its position in the capital market.

Conclusions

The results show that there is no significant effect of the proportion of independent commissioners, audit committee size, leverage, or profitability on firm value. This finding indicates that although these factors are important in corporate governance and finance theory, in the context of companies included in the LQ45 Index, firm value is more likely to be influenced by external variables such as market conditions, government policies, or industry dynamics that are not the focus of this study.

The results of this study also indicate the need to pay attention to other aspects beyond the variables studied, such as the effectiveness of corporate governance implementation, the quality of commissioners and audit committee members, and the company's strategy in dealing with dynamic economic conditions. In addition, although profitability does not significantly affect firm value in this study, this factor remains an important indicator in assessing the company's financial performance. These findings provide insights for future research to consider other variables or use a more comprehensive approach to explain variations in firm value in the future.

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