INTERNATIONAL JOURNAL OF SOCIAL SCIENCE HUMANITY & MANAGEMENT RESEARCH
ISSN (print) 2833-2172, ISSN (online) 2833-2180
Volume 04 Issue 07 July 2025
DOI: 10.58806/ijsshmr.2025v4i7n06, Impact Factor: 6.79
Page No. 1350-1358

The Influence of Good Corporate Governance and Funding Decisions on Firm Value Through Investment Decisions in Manufacturing Sub-Sector Companies Listed on the Indonesia Stock Exchange

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ABSTRACT: This study aims to analyze the influence of Good Corporate Governance and funding decisions on firm value, with investment decisions as a mediating variable, in manufacturing sub-sector companies listed on the Indonesia Stock Exchange (IDX). The approach used is a quantitative approach with the Structural Equation Modeling method based on Partial Least Squares (SEM-PLS). The data used are secondary data obtained from the companies' annual reports and financial statements. The results show that Good Corporate Governance has an effect on firm value, while funding decisions affect investment decisions. Investment decisions are also proven to influence firm value and serve as a partial mediator in the relationship between funding decisions and firm value. However, the influence of Good Corporate Governance on investment decisions, both directly and indirectly, is not statistically significant. These findings emphasize the importance of corporate governance and the integration of financial policies in enhancing firm value, particularly through effective investment allocation.

KEYWORDS: Good Corporate Governance, Funding Decisions, Investment Decisions, Firm Value, Manufacturing Sector, Indonesia Stock Exchange

I. INTRODUCTION

Firm value is a key indicator that reflects management's success in efficiently managing assets and resources to enhance shareholder welfare. A high firm value not only indicates positive growth prospects but also reflects investor confidence in the company's sustainability and future performance (Handayani, 2017). Therefore, enhancing firm value becomes a primary strategic objective in every managerial policy, especially within a competitive capital market environment.

The relevance of firm value becomes even more significant in the context of the manufacturing sector, which has long been one of the largest contributors to Indonesia's Gross Domestic Product (GDP). According to data from Statistics Indonesia (BPS), the manufacturing or processing industry contributed 18.98% to Indonesia's total GDP in 2024, making it the highest-contributing sector among others (GoodStats, 2024). This strategic role highlights that managerial strategic decisions in manufacturing companies—such as investment and funding policies—play a critical role in shaping the direction and growth of overall firm value.

In relation to governance, the implementation of Good Corporate Governance (GCG) is crucial as a system that ensures accountability, transparency, and protection of the interests of shareholders and other stakeholders. Good GCG practices are believed to reduce agency conflicts, improve information structure, and enhance the efficiency of decision-making, ultimately leading to increased firm value (Aulia & Sari, 2022). On the other hand, effective funding decisions—particularly in determining the capital structure between debt and equity—also directly impact financial risk and the expected return for investors, making them a critical factor in creating optimal firm value.

However, the Indonesian capital market still faces challenges in the implementation of good corporate governance. The Financial Services Authority (OJK) has noted deficiencies in transparency and accountability in many publicly listed companies. This indicates weak GCG practices that have the potential to erode investor confidence and hinder sustainable firm value growth (Bareksa, 2021). Therefore, research on the influence of GCG and funding decisions on firm value—through investment decisions—becomes highly relevant to strengthen academic literature and provide recommendations for improving governance and financial decision-making in Indonesia's manufacturing sector.

In recent years, manufacturing companies listed on the Indonesia Stock Exchange (IDX) have shown considerable fluctuations in firm value. This is reflected in the variation of Tobin's Q ratio and Return on Equity (ROE), which indicate capital utilization efficiency and the company's ability to generate profits. Mahayati, Fatonah, and Meilisa (2021) observed that ROE and Debt to Equity Ratio (DER) affect firm value in the metal and similar sub-sectors. However, not all companies show a positive trend, with

some experiencing a Tobin's Q ratio below 1, indicating a market value lower than the company's net asset value (Ana, 2021).
One of the main causes of these fluctuations is the weak implementation of Good Corporate Governance (GCG) practices. Mugayatshah (2018) stated that the decline in a company's financial performance can occur due to inadequate supervision by the board of commissioners and the lack of a legal framework that supports consistent GCG implementation. This condition indicates that poor governance quality negatively contributes to firm value.

In addition, inefficient funding decisions also stand out as a critical issue. Marcelina et al. (2019) found that DER values among manufacturing companies are highly volatile, ranging from 0.07 to 4.55. This inconsistency reflects weak capital structure planning, which can increase financial risk and reduce the company's attractiveness in the eyes of investors.
Furthermore, the mismatch between firm value and investment decisions has also been highlighted in a study by Lianita (2024), which concluded that Return on Equity (ROE) does not significantly influence investment decisions in manufacturing companies within the automotive and components sub-sector. This indicates that even when high profitability is achieved, it does not necessarily lead to investment allocations that support an increase in firm value.
Good Corporate Governance (GCG) is a system designed to direct and control companies in order to create sustainable added value for all stakeholders. This system aims to ensure that companies are managed professionally, transparently, and responsibly in the interest of shareholders and other related parties. The Financial Services Authority (OJK) affirms that the effective implementation of GCG will enhance a company's competitiveness as well as improve performance and accountability, ultimately strengthening market confidence in the company (OJK, 2015).
Moreover, GCG has a direct impact on risk management practices and strategic decision-making. With sound governance, companies are able to systematically identify, monitor, and manage risks, and make more measured decisions based on transparent and relevant information. This directly protects the interests of shareholders and other stakeholders and supports the stability of the financial sector (OJK Institute, 2023).
The core principles of GCG consist of transparency, accountability, responsibility, independence, and fairness. Transparency requires that information be disclosed openly and accurately to the public, while accountability obliges company management to be answerable for their actions and decisions. The principle of fairness is vital to ensure the protection of the rights of all shareholders, including minority shareholders. Through the application of these principles, GCG serves as a pillar in buildin g a fair and healthy investment climate in the Indonesian capital market (OJK, 2015; IDX, 2021).
This study aims to provide a more comprehensive understanding of how the implementation of Good Corporate Governance (GCG) and funding decisions influence firm value, taking investment decisions into account as a mediating variable. Strong GCG is believed to enhance the quality of managerial decision-making, reduce conflicts of interest, and strengthen accountability and transparency, which ultimately has a positive effect on firm value (Financial Services Authority [OJK], 2015). On the other h and, an appropriate funding structure can minimize the cost of capital and financial risk, and encourage efficient investment allocation (Indonesia Stock Exchange [IDX], 2021).
Through this approach, the study is expected to serve as a valuable reference for various stakeholders, such as company management in designing optimal funding and governance strategies, investors in assessing the feasibility and prospects of companies based on GCG indicators and financial decisions, and regulators in formulating policies to strengthen governance in the corporate sector. By focusing on manufacturing companies listed on the Indonesia Stock Exchange, this research also contributes to enriching the empirical literature on the relationship between GCG, funding, investment, and firm value in the context of a developing Indonesian economy. This understanding aligns with the policy direction of OJK and IDX in strengthening the integrity, competitiveness, and sustainability of Indonesia's capital market (OJK Institute, 2023; IDX, 2021).

II. LITERATURE REVIEW

A. Agency Theory

Agency Theory was first introduced by Jensen and Meckling (1976), who stated that the relationship between company owners (principals) and managers (agents) is contractual in nature, where the principal delegates authority to the agent to manage the company on their behalf. However, this relationship often gives rise to conflicts of interest due to differing objectives and asymmetric information between the two parties (Jensen & Meckling, 1976). In such situations, Good Corporate Governance (GCG) serves as a supervisory mechanism designed to minimize agency conflicts by strengthening managerial control systems and accountability (Hidayah, 2023). The implementation of GCG principles—such as transparency, accountability, responsibility, independence, and fairness—can guide management to act more responsibly in the interest of shareholders (Lestari & Sari, 2023). In the context of this study, GCG not only functions as a control mechanism but also as a strategic instrument to ensure that managerial decisions—particularly in funding and investment—are aligned with the company's primary objective, which is the sustainable enhancement of firm value (Handayani, 2022).

B. Positive Agency Theory

Positive Agency Theory is an extension of the agency theory proposed by Jensen and Meckling, and focuses on how internal monitoring mechanisms can reduce agency costs arising from conflicts of interest between managers (agents) and company owners (principals). One such mechanism is the implementation of Good Corporate Governance (GCG), which is believed to reduce the likelihood of managers deviating from the interests of the company owners through the application of principles such as transparency, accountability, and independence (Wibowo & Suryono, 2023). In addition, the presence of managerial ownership can also serve as an effective control tool, as the greater the shareholding held by managers, the lower the tendency for them to act opportunistically or contrary to the owners' interests (Kusumawati & Murwaningsari, 2021). Thus, Positive Agency Theory emphasizes that a sound corporate governance structure and the direct involvement of managers in share ownership can be important instruments in reducing agency costs and enhancing firm value.

B. Capital Structure Theory

The Capital Structure Theory proposed by Modigliani and Miller (1958, 1963) states that in a perfect market, capital structure—that is, the composition of debt and equity—does not affect firm value. However, in the modified version of this theory that takes taxes into account, the use of debt can actually increase firm value due to the tax benefits of interest payments, commonly referred to as the tax shield (Modigliani & Miller, 1963). Thus, companies can reduce their tax burden through interest payments, which indirectly enhance firm value. Nevertheless, increased use of debt also raises the risk of bankruptcy and oth er financial costs, making it essential for companies to balance the tax advantages against the potential losses from debt burdens (Brusov, Filatova, & Orekhova, 2024). More recent studies even show that the frequency of tax payments can influence firm value and the cost structure of capital, highlighting the importance of prudent funding strategies in the context of strategic fina ncial management (Brusov, Filatova, & Orekhova, 2025).

C. Investment Theory

The investment theory developed by James Tobin states that rational investment decisions can be observed through the Tobin's Q ratio, which is the comparison between a company's market value and the replacement cost of its assets. When the Q ratio is greater than 1 ($Q > 1$), the market values the company higher than its book value, indicating that new investments are expected to generate added value (Tobin, 1969; Investopedia, 2023). In the context of this study, investment decisions serve as a mediating variable that bridges the influence of Good Corporate Governance (GCG) and funding decisions on firm value. Recent research also shows that companies with high Tobin's Q ratios tend to be more aggressive in expansion and capital allocation, as they are confident in maximizing investment returns (Sari & Ramadani, 2023). Furthermore, Tobin's Q is also used as an indicator of managerial effectiveness in resource management, as well as to assess whether the market is valuing the company fairly (Accounting Insights, 2024). Therefore, investment decisions are not only determinants of company growth but also reflections of efficiency and sound governance.

D. Firm Value Theory

Firm Value Theory states that a company's value reflects investors' perceptions of management's success in running the company, which is represented through financial indicators such as Return on Equity (ROE), Price to Book Value (PBV), and Tobin's Q. These indicators are used to assess financial performance and the company's growth prospects. For example, a study by Lutfi and Panuntun (2024) found that ROE has a positive and significant effect on firm value, as measured by PBV and Tobin's Q. This suggests that a company's ability to generate profits from its equity can increase investor confidence and, ultimately, firm value. In addition, PBV is used to evaluate whether a company's stock is priced higher or lower than its book value, while Tobin's Q measures the ratio between a company's market value and the replacement cost of its assets. When the Q ratio is greater than 1, it indicates that the market views the company as having strong growth prospects, encouraging further investment (Investopedia, 2023). Therefore, all managerial policies—including good corporate governance (GCG), investment decisions, and capital structure—aim to maximize firm value through improvements in these indicators.

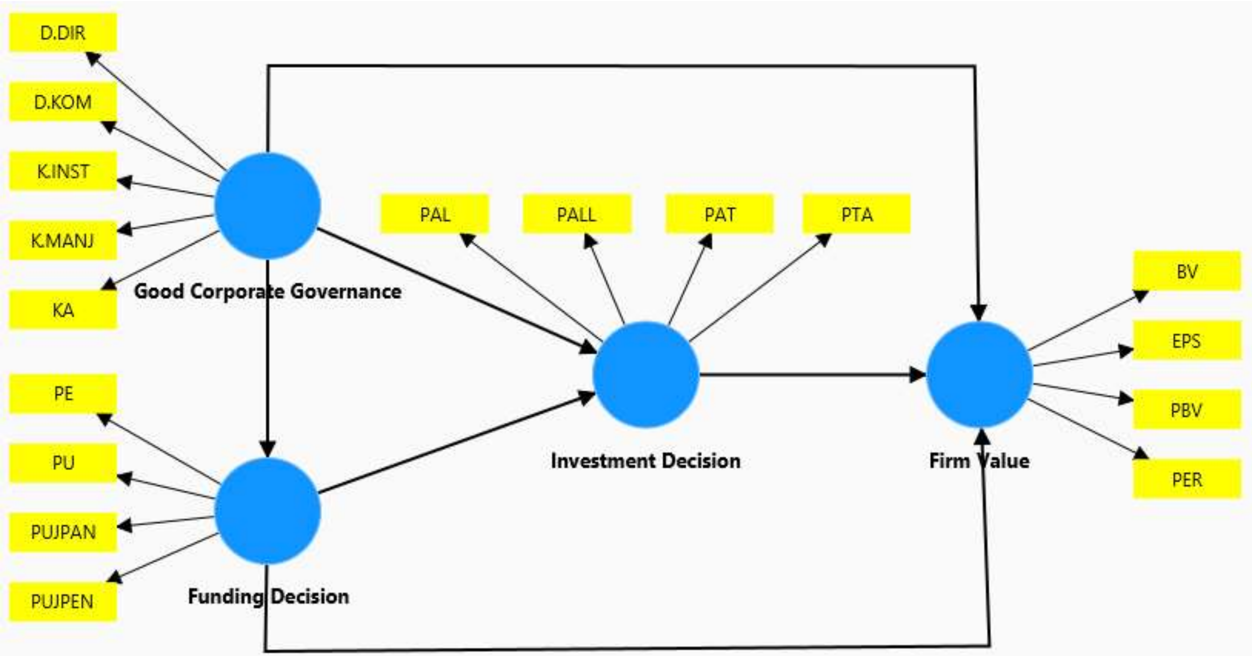

Figure 1. Conceptual Framework

Research Hypotheses:

- H1: Good Corporate Governance influences Investment Decisions.
- H2: Funding Decisions influence Investment Decisions.
- H3: Good Corporate Governance influences Firm Value.
- H4: Funding Decisions influence Firm Value.
- H5: Investment Decisions influence Firm Value.
- H6: Investment Decisions mediate the influence of Good Corporate Governance and Funding Decisions on Firm Value.

III. RESEAECH METHOD

This study employs a quantitative approach with a causal-comparative research design to examine the influence of Good Corporate Governance and funding decisions on firm value, with investment decisions as a mediating variable. The population in this study consists of all manufacturing sub-sector companies listed on the Indonesia Stock Exchange (IDX) during a specific period. A purposive sampling technique is used to select the sample based on specific criteria such as the completeness of financial statement data and consistency of reporting during the observation years. The data used are secondary data obtained from annual reports, financial statements, and official IDX publications. The data analysis technique applied in this study is Structural Equation Modeling based on Partial Least Squares (SEM-PLS), operated using SmartPLS software. This method is chosen because it can simultaneously test causal relationships between latent variables, even with relatively small sample sizes and non-normally distributed data.

IV. RESULTS AND DISCUSSION

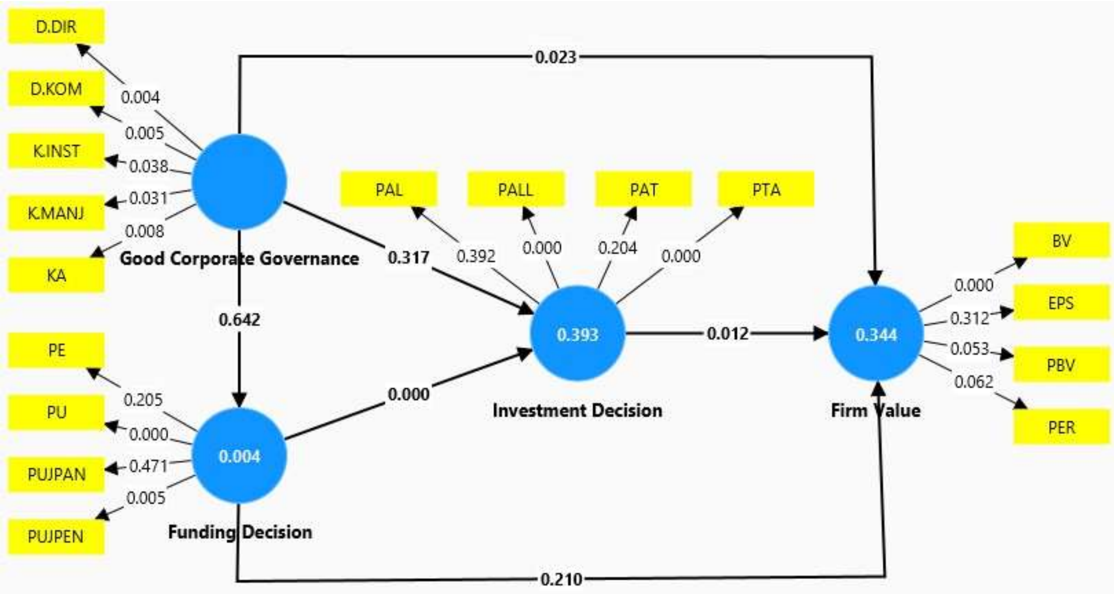

Figure 2. Outer Model

Based on the results of the outer model, all indicators in the constructs of Good Corporate Governance, Funding Decision, Investment Decision, and Firm Value show very low outer loading values, far below the minimum threshold of 0.7 required to meet convergent validity. These low loading values indicate that the indicators used have not been able to accurately and consistently reflect the latent constructs being measured. This condition suggests that the measurement model in this study does not meet the criteria for convergent validity, thus requiring further evaluation of the quality and relevance of the indicato rs, whether through replacement, removal, or refinement of the measurements, in order for the model to produce valid and reliable results.

Table 1. R-Square (R^2) Values

	al sample (O)	ple mean (M)	dard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Firm Value	0.344	0.374	0.082	4.208	0.000
Funding Decision	0.004	0.021	0.054	0.081	0.936
Investment Decision	0.393	0.480	0.147	2.668	0.008

The R-Square (R^2) results show that the Firm Value variable has an R^2 value of 0.344, which means that 34.4% of the variation or changes in firm value can be explained by the influencing exogenous constructs, namely Good Corporate Governance, Funding Decision, and Investment Decision. Meanwhile, the Investment Decision variable has an R^2 value of 0.393, indicating that 39.3% of the variation in investment decisions can be explained by Good Corporate Governance and Funding Decision. The R^2 values for these two endogenous variables fall into the moderate category according to the criteria by Hair et al. (2014), while the R^2 value for the Funding Decision variable is very low (0.004) and statistically insignificant (p-value 0.936; t- statistic 0.081), indicating that the exogenous constructs do not meaningfully explain the variation in funding decisions. These results suggest that the model has a moderate explanatory power for investment decisions and firm value, but not for funding decisions.

Table 2. f-Square (f^2) Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Funding Decision -> Firm Value	0.035	0.045	0.047	0.737	0.461
Funding Decision -> Investment Decision	0.641	1.049	0.661	0.969	0.332
Good Corporate Governance ->	0.317	0.361	0.157	2.020	0.043

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Firm Value					
Good Corporate Governance -> Funding Decision	0.004	0.029	0.203	0.021	0.983
Good Corporate Governance -> Investment Decision	0.015	0.037	0.044	0.345	0.730
Investment Decision -> Firm Value	0.145	0.135	0.094	1.549	0.121

Based on the results of the structural model test, it is evident that the influence of Good Corporate Governance on Firm Value is significant, with a coefficient value of 0.317, a t-statistic of 2.020, and a p-value of 0.043, indicating a convincing relationship between corporate governance and firm value. However, the other relationships show statistically insignificant results. The influence of Funding Decision on Firm Value is only 0.035 with a p-value of 0.461 and a t-statistic of 0.737, suggesting that funding decisions do not contribute meaningfully to firm value. Similarly, the influence of Investment Decision on Firm Value has a coefficient of 0.145 but is also not significant (p-value 0.121). Meanwhile, although the influence of Funding Decision on Investment Decision has a relatively large coefficient of 0.641, the result remains statistically insignificant (p-value 0.332). The same applies to the influence of Good Corporate Governance on Investment Decision (0.015; p-value 0.730) and on Funding Decision (0.004; p-value 0.983). Overall, only one path in the model is statistically significant, namely the path from Good Corporate Governance to Firm Value, while the other paths show weak and statistically insignificant relationships.

Table 3. Hypothesis Testing Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Funding Decision -> Firm Value	-0.194	-0.169	0.155	1.253	0.210
Funding Decision -> Investment Decision	0.625	0.668	0.139	4.503	0.000
Good Corporate Governance -> Firm Value	0.461	0.433	0.202	2.282	0.023
Good Corporate Governance -> Funding Decision	-0.066	-0.033	0.142	0.465	0.642
Good Corporate Governance -> Investment Decision	0.097	0.104	0.096	1.002	0.317
Investment Decision -> Firm Value	0.396	0.368	0.158	2.509	0.012

The results of hypothesis testing show that out of the six hypothesized relationships in the model, three are statistically significant. Funding Decision influences Investment Decision with a coefficient of 0.625, a t-statistic of 4.503, and a p-value of 0.000, indicating that a company's capital structure significantly contributes to determining its investment decisions. Furthermore, Good Corporate Governance affects Firm Value, with a coefficient of 0.461, a t-statistic of 2.282, and a p-value of 0.023. This suggests that the better the implementation of corporate governance, the higher the firm value in the eyes of investors. Additionally, Investment Decision is also found to significantly influence Firm Value, with a coefficient of 0.396, a t-statistic of 2.509, and a p-value of 0.012, indicating that capital allocation decisions for investment activities positively impact firm value.

On the other hand, the remaining three paths do not show significant effects. The influence of Funding Decision on Firm Value has a coefficient of -0.194, with a t-statistic of 1.253 and a p-value of 0.210, suggesting that funding choices made by companies are not sufficient to influence market perceptions of firm value. Next, the influence of Good Corporate Governance on Funding Decision has a coefficient of -0.066, a t-statistic of 0.465, and a p-value of 0.642, indicating that corporate governance practices do not significantly affect the selection of funding sources by the company. Lastly, the influence of Good Corporate Governance on Investment Decision is also not significant, with a coefficient of 0.097, a t-statistic of 1.002, and a p-value of 0.317, suggesting that governance practices have not yet been able to effectively encourage management to make optimal investment decisions. Thus, among all the relationships tested, only some support the initial hypotheses and can be used as a basis for drawing statistically strong conclusions.

Table 4. Indirect Effect

	Original sample (O)	**Sample mean (M)**	**Standard deviation (STDEV)**	**T statistics (|O/STDEV|)**	**P values**
Good Corporate Governance -> Funding Decision -> Firm Value	0.013	0.005	0.038	0.339	0.735
Good Corporate Governance -> Funding Decision -> Investment Decision -> Firm Value	-0.016	-0.010	0.037	0.439	0.661
Good Corporate Governance -> Funding Decision -> Investment Decision	-0.041	-0.022	0.089	0.463	0.643
Funding Decision -> Investment Decision -> Firm Value	0.248	0.248	0.126	1.966	0.049
Good Corporate Governance -> Investment Decision -> Firm Value	0.038	0.040	0.039	0.984	0.325

The results of the indirect effect analysis show that only one mediation path is statistically significant, namely the indirect effect of Funding Decision on Firm Value through Investment Decision, with a coefficient of 0.248, a t-statistic of 1.966, and a p- value of 0.049. This indicates that while funding decisions do not directly influence firm value, they can contribute to its enhancement through their impact on investment decisions. In other words, Investment Decision acts as a partial mediator in this relationship.

Meanwhile, the other indirect paths do not show statistical significance. The path Good Corporate Governance → Funding Decision → Firm Value has a coefficient of 0.013 with a p-value of 0.735, indicating that GCG's influence on funding decisions does not significantly affect firm value. The path Good Corporate Governance → Funding Decision → Investment Decision → Firm Value is also not significant (coefficient -0.016, p-value 0.661), suggesting that the two-step mediation from GCG does not convincingly explain variations in firm value.

Furthermore, the indirect influence of Good Corporate Governance on Investment Decision through Funding Decision is not significant, with a coefficient of -0.041, a t-statistic of 0.463, and a p-value of 0.643. This reinforces the finding that GCG does not significantly influence funding structure or investment decisions indirectly. Lastly, the mediation path from Good Corporate Governance → Investment Decision → Firm Value has a coefficient of 0.038 with a p-value of 0.325, also not significant, indicating that although GCG plays an important direct role in affecting firm value, its influence through investment decisio ns is not statistically supported.

Thus, out of the five indirect paths tested, only one was found to be significant, while the other four did not provide stron g evidence of mediation effects in the relationships between constructs. This highlights that investment decision-making is a crucial pathway in mediating the influence of funding decisions on the enhancement of firm value, whereas the other mediation routes have yet to demonstrate similar effectiveness.

DISCUSSION

The findings of this study confirm that Good Corporate Governance (GCG) plays a crucial role in enhancing firm value. This result aligns with agency theory, which states that the implementation of sound governance principles—such as transparency, accountability, and independence—can reduce conflicts of interest between managers and shareholders. In the context of manufacturing companies in Indonesia, this demonstrates that management's success in building investor trust and maintaining operational integrity correlates with market perceptions of firm value. These findings also reinforce the notion that effective GCG practices are not merely normative obligations but have tangible impacts on a company's performance and market position.

Furthermore, the relationship between funding decisions and investment decisions is proven to be significant, indicating that a properly designed capital structure—whether through debt or equity—can encourage management to allocate resources to productive investments. This supports capital structure theory, which posits that the tax advantages of debt usage can provide financial room for companies to expand their investment activities. In addition, investment decisions are also shown to contribute to firm value, in line with Tobin's Q theory, which suggests that firm value will increase when investment decisions yield returns higher than the cost of capital. However, other findings show that GCG and funding decisions do not directly influence investment decisions and firm value across all paths, suggesting that the effectiveness of managerial policies may be highly dependent on internal company context and the dynamics of each industry sector.

The findings regarding indirect effects further emphasize the important role of investment decisions as a mediator, particularly in linking funding decisions to firm value. This highlights that funding strategies not directed toward appropriate investment decisions will not significantly impact firm value. Meanwhile, the indirect influence of GCG has yet to demonstrate strong effectiveness, possibly due to the gap between formal governance implementation and actual managerial practices. Overall, these findings underscore that in the context of manufacturing companies in Indonesia, governance and financial decisions must be managed in an integrated and strategic manner to achieve the ultimate goal of sustainable firm value enhancement.

V. CONCLUSIONS

This study aims to analyze the influence of Good Corporate Governance (GCG) and funding decisions on firm value, with investment decisions as a mediating variable, in manufacturing sub-sector companies listed on the Indonesia Stock Exchange. Based on data processing using the Structural Equation Modeling - Partial Least Squares (SEM-PLS) method, it can be concluded that three hypotheses are statistically significant and accepted, while the other three are not supported.

The accepted and significant hypotheses are:

- H2: Funding Decision influences Investment Decision,
- H3: Good Corporate Governance influences Firm Value, and
- H5: Investment Decision influences Firm Value.

These findings suggest that companies with an effective capital structure tend to make appropriate investment decisions, and consistently implemented GCG enhances market trust and strengthens firm value. Rational and productive investment decisions are also proven to be a key determinant in increasing firm value.

Meanwhile, the three rejected and statistically insignificant hypotheses are:

- H1: Good Corporate Governance influences Investment Decision,
- H4: Funding Decision influences Firm Value, and
- H6: Investment Decision mediates the influence of Good Corporate Governance and Funding Decision on Firm Value.

The rejection of H1 and H6 indicates that although GCG has a direct influence on firm value, its implementation is not strong enough to significantly impact investment decisions, either directly or indirectly. Similarly, H4 is rejected because funding decisions do not show a significant direct relationship with firm value, except through the mediation of investment. Thus, the only statistically significant indirect mediation path is the influence of Funding Decision on Firm Value through Investment Decision, reinforcing the role of investment decisions as a key variable in the value creation process.

Overall, the findings of this study emphasize that enhancing firm value in the manufacturing sector is inseparable from the quality of corporate governance and appropriate investment strategies, as well as the importance of alignment between funding structure and investment direction. Therefore, companies need to strengthen the implementation of GCG not only formally but also strategically in order to influence key financial decisions that contribute to the company's long-term value. This study is also expected to serve as a reference for regulators, investors, and company management in designing more effective governance and funding policies within the context of Indonesia's manufacturing industry.

ACKNOWLEDGMENT

The author extends sincere gratitude to the Faculty of Economics and Business, University of 17 August 1945 Surabaya, for the support and facilities provided during the implementation of this research. Appreciation is also expressed to all parties who have contributed, both in data collection and in the preparation of this scientific article, making it possible for this research to be successfully completed.

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