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Effect of Profitability, Leverage and Good Corporate Governance on Firm Value

Dian Primanita Oktasari

Faculty of Business And Economics, Universitas Mercu Buana, Indonesia

Abstract: This study was conducted to determine the effect of profitability, leverage and good corporate governance on firm value in the food and beverages sub-sector companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The dependent variable used in this study is Price Book Value (PBV). The population in this study were 29 companies in the Food and Beverage industry sector which were listed on the Indonesia Stock Exchange (BEI) in 2015-2019. The sample used is 10 companies in the Food and Beverage sector with sampling using purposive sampling technique. The analysis tool used is in the form of panel data regression. Data were analyzed using eviews 11. The results of this study indicate that the Profitability and Good Corporate Governance variables have a positive and significant effect on PBV, while the Leverage variable has no effect on PBV.

Keywords: Good Corporate Governance, Profitabilitas, Leverage, Price Book Value.

INTRODUCTION

In the world, especially in Indonesia, there has been a covid-19 pandemic that has caused the government to make a Work From Home (WFH) policy aimed at implementing social distancing in order to minimize the transmission of the covid-19 virus. This pandemic has caused losses in various fields, namely the political, socio-cultural fields, and the worst is the economic sector. Many industries have laid off (Termination of Employment) in order to maintain their companies. There are still many other losses due to this pandemic, namely in economic activities in which there are investment activities several sectors one of which is the influence on the stock market. Indonesian stock prices have decreased due to the Covid-19 pandemic.

Share prices can affect the value of the company, because the measure of the success of company management is seen from the company's ability to improve the welfare of its shareholders. A high share price makes the company value high, and increases market confidence not only in the company's current performance but also in the company's future prospects. (Maryati & Bida Sari, 2018).

The purpose of the company is to increase the value of the company by increasing the welfare of shareholders or maximizing shareholder wealth. Increasing company value can be fulfilled if the company is able to operate properly to achieve the targeted profit. Through the profits earned by the company, the company is able to distribute dividends to shareholders to increase company value and maintain company value in the future (Dewi, 2012).

Firm value is the investor's perception of the company's success rate associated with the stock price. The high share price makes the company value also high. A high company value will make the market believe not only in the company's current performance but in the company's future prospects. The firm value is generally indicated by the price to book value (PBV). (Bayu Irfandi & I.B Panji Sedana; 2015). According to Brigham and Houston (2011), PBV is a comparison between the stock price and the company's book value. Where the company's book value (book value share) is the ratio between common stock equity and the number of shares outstanding.

In this study discusses the Food and Beverages sector industrial companies. Covid-19 caused a decline in growth in the food sector and evolution. However, despite the decline, this sector is still the mainstay sector supporting manufacturing growth in Indonesia. The manufacturing industry is the highest sector that contributes to the economic sector. Most of them are non-oil and gas processing industries. Of the industry, food and beverages have the largest contribution portion, namely 6.33% of the national GDP in the first semester of 2018. The rest comes from the chemical industry by 2.9%, metal goods, computers, and machinery by 2.08%, transportation equipment of 2.08%. 1.76%, and textiles and apparel at 1.13%. The food and beverage sub-sector also experienced the highest growth compared to other manufacturing industries. (Kompas.com; 2018).

The Food and Bevergaes company is one of the business sectors that continues to experience growth. In line with the increasing population

***Corresponding Author:** Dian Primanita Oktasari

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growth in Indonesia, the volume of demand for food and beverages continues to increase as well. The tendency of the Indonesian people to enjoy ready-to-eat food has led to the emergence of many new companies in the food and beverage sector because they consider the food and beverages industry sector to have favorable prospects both now and in the future. Throughout 2014 until semester.The first was over, the sales performance of issuers in the food and beverage sub-sector still recorded an increase.

The movement of company value from year to year experiences instability in the Food and Beverage Sub-Sector Manufacturing Company in 2015-2019. It can be concluded that the higher the Price Book to Value (PBV) of a company, the better the company's performance. Good performance will be taken into account by investors to invest and the company can increase the stock price so that it can increase the Price Book to Value and vice versa.

One aspect that affects the value of the company is Profitability. Sartono (2014) states that profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Meanwhile, Dhani and Utama, (2017) state that high profitability shows the effectiveness of company management. According Nuhayati, (2013), profitability has positive and significant impact on firm value.

Apart from profitability, leverage can also affect firm value. Leverage is the company's ability to use debt to maximize profits (Rizqia, *et al*, 2013). In accordance with signaling theory, the use of debt as a funding decision in a company will provide a positive signal for investors. Achmad and Amanah, (2014) explain that the use of external funds will increase company revenue which will later be used for profitable investment activities for the company. So that is the hope of investors of the future growth of the company will increase and the value of the company will also increase.

Another aspect that has an impact on company value is Good Corporate Governance. Good Corporate Governance is an explanation of good corporate governance practices so as to increase company value. Good Corporate Governance is different from management, where management is managing technical matters so that the company makes a profit and continues to grow. In management there is not much emphasis on values, propriety, humanity. Good Corporate Governance touches a side that is not achieved by management. Good Corporate Governance is a system that regulates and controls the company to create added value for all stakeholders. There are 2 (two) things that emphasize this concept. First, the importance of shareholders' rights to be able to access correct, accurate and timely information. Second, the company's obligation to disclose accurately, timely and transparently all information on company performance, ownership and stakeholders. (Wiguna & Yusuf, 2019).

Found results from several previous studies. Previous research on the Effect of Leverage on Firm Value According to Fahmi, (2012) argues that leverage is a ratio that measures how much a company is financed with debt. MM theory in Kamaludin, (2011) states that companies that have debt will have more value when compared to companies without debt. Variable good corporate governance in the research of Laila (2011), Tjondro and R. Wilopo, (2011), Syafitri, *et al.*, (2018), David Oesch, (2011), Zhang and Huang, (2018) and Obradovich and Gill (2013) have a positive effect on firm value. Meanwhile, in the research of Gusni and Agnes Vinelda, (2016) and Fitria Dwi R and Mangesti R, (2017) good corporate governance has a negative effect on firm value. Leverage in the research of Bhardwaj, (2012) and John Obradovich and Gill, (2013) has a positive effect on firm value. Whereas in the research of Fitria Dwi R and Sri Mangesti R, (2017) Leverage has a negative effect on firm value. Profitability in research by Fitria Dwi R and Sri Mangesti R (2017), Anshu Bahrdwaj, (2012) and Obradovich and Gill, (2013) has a positive effect on firm value. Meanwhile, in the research of Gusni and Agnes Vinelda, (2016) profitability has a negative effect on firm value.

THEORETICAL REVIEW

Pecking Order Theory

The pecking order theory according to Myers and Majluf, (1984) states that companies have a certain order of preference for capital used to finance the company's business, because of the potential for information asymmetry between investors and companies, companies will prefer retained earnings to debt. short-term debt over long-term debt and debt to equity (debt over equity).

Modigliani & Miller's Theory Approach

The theory of approach Modigliani and Miller (MM) Modern capital structure theory began in 1958, when two experts in financial management

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Prof. Franco Modigliani and Marton Miller proposed a scientific theory about the capital structure of a company that the value of a company is not affected by its capital structure. In other words, how a company will finance its operations means nothing, so the capital structure is irrelevant.However, this theory is based on several assumptions including no brokerage fees, no taxes, no bankruptcy fees, investors can borrow at the same rate as the company and EBIT is not affected by the use of debt.

Firm Value

According to Brigham and Houston (2011), firm value is a certain condition that has been achieved by a company as a reflection of public trust in the company after going through a process of activity for several years, namely from the time the company was founded to the present. Increasing the value of the company is an achievement in accordance with the wishes of the owners.

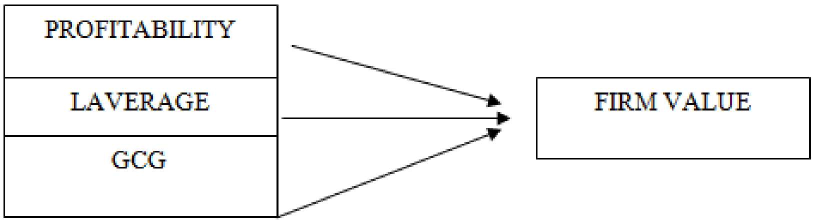

Figure1: Conceptual Framework
Source: Processed Data (2020)

Based on the theory and background of the problems stated earlier, the research hypothesis can be formulated as follows:

H1: Profitability has a positive effect on firm value.
H2: Leverage has a positive effect on firm value.
H3: Good Corporate Governance has a positive effect on company value.

Method

This research is a quantitative research which is a causal relationship research which aims to determine the pattern of the causal relationship between the independent variable and the dependent variable. The use of this causal explanatory method is in accordance with the research objectives, namely testing the hypothesis that tests the relationship and influence between the variables studied. The choice of this type of research is in accordance with the research objectives, namely to determine whether profitability, leverage and GCG have an effect on firm value.

RESULT

Descriptive Statistical Analysis

The results of descriptive analysis of the data used are X1 (Profitability), X2 (Leverage), and X3 (Good Corporate Governance) as independent variables and Y (Company Value) as the dependent variable in the food and beverages sub-sector mining companies listed on the IDX. 2015-2019 period according to the criteria that have been applied with a total of 10 sample companies.

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Table 4.1: Descriptive Statistical Analysis

Date: 01/29/21 Time: 23:33
Sample: 1 50

	X1	X2	X3	Y
Mean	0.135440	0.824653	0.718834	2.484547
Median	0.147318	0.801749	0.712131	1.605306
Maximum	0.281216	1.954942	0.927682	6.857417
Minimum	0.000924	0.163544	0.330651	0.210052
Std. Dev.	0.070389	0.434155	0.162485	1.907401
Skewness	-0.186723	0.520990	-0.309106	0.657370
Kurtosis	2.020895	2.842956	1.896801	2.125746
Jarque-Bera	2.287728	2.313303	3.331739	5.193456
Probability	0.318586	0.314538	0.189026	0.074517
Sum	6.771995	41.23267	35.94171	124.2274
Sum Sq. Dev.	0.242774	9.236044	1.293661	178.2708
Observations	50	50	50	50

Source: Processed Data (2020)

Selection of Panel Data Regression Model

a) Chow Test

According to Widarjono (2013), tests were carried out to determine which model is the most appropriate for estimating panel data between the common effect model or the fixed effect model. With the hypothesis in the chow test are:

1. H0: Common Effect Model
   H1: Fixed Effect Model
2. The criteria for decision making are:

a. If the probability value of F and chi square> α, α = 5% (0.05) then H0 is accepted

b. If the probability value of F and chi square <α, α = 5% (0.05) then H1 is accepted

Table 4.2: Chaow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	22.692557	(9,37)	0.0000
Cross-section Chi-square	93.742270	9	0.0000

Based on the calculation results shown in table 4.2, it can be concluded that the probability value of F and chi-square (0.000) is smaller than α = 0.05 (5%) so that H1 is accepted and H0 is rejected. This test proves that the fixed effect model is better used in estimating panel data regression than the common effect model.

b) Haustman Test

Based on the calculation results shown in table 4.3, it can be seen that the probability value is smaller than α = 0.05 (5%) so that H1 is accepted and H0 is rejected. This test proves that the fixed effect model is better used in estimating panel data regression than the random effect model.

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Table 4.3: Haustman Test

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.820231	3	0.0012

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	7.089499	8.005925	1.224133	0.4075
X2	0.773925	0.643776	0.024198	0.4028
X3	11.774672	9.713135	0.336399	0.0004

c) Determination Coefficient Test (R2)

Table 4.4: Determination Coefficient Test (R2)

R-squared	0.897018
Adjusted R-squared	0.863618

Based on the calculation results in table 4.4, it can be seen that the effect of the independent variable on the dependent variable is having an Adjusted R-squared value of 0.897018 or 89.7018%. This indicates that 89.7018% of the company value can be explained from the independent variables, namely Profitability, Leverage and Good Corporate Governance, while the rest is 100% - 89.7018% = 10.2982% influenced by other independent variables.

Panel Data Regression Model Testing

F Test

Table 4.5: F test

F-statistic	26.85716
Prob(F-statistic)	0.000000

Based on F statistical probability value is smaller than 0.05, namely 0.0000. This shows that Ho is rejected and Ha is accepted, which means that the independent variables, namely profitability, leverage and good corporate governance together have a significant effect on firm value.

T test

Table 4.6: T Test

Dependent Variable: Y
Method: Panel Least Squares
Date: 01/20/21 Time: 15:27
Sample: 2015 2019
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.625854	1.141562	-6.680194	0.0000
X1	7.089499	2.753832	2.574413	0.0142
X2	0.773925	0.420613	1.839993	0.0738
X3	11.77467	1.396282	8.432873	0.0000

Testing the Profitability variable on Firm Value produces a probability value of 0.0142> from a significant level of 0.05 and has a coefficient value of 7.089499, this shows that the Profitability variable has a positive effect on Firm Value. Then the hypothesis (H5) states that Profitability has an effect on Firm Value.

Testing of the Leverage variable on Firm Value produces a probability value of 0.0738> from a

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significant level of 0.05 and has a coefficient value of 0.773925, this indicates that the leverage variable does not have a positive and significant effect on Firm Value. Then the hypothesis (H5) states that Leverage has no positive effect on Firm Value.

Testing the Institutional Ownership variable on Firm Value produces a probability value of 0.0000 <from the significant level of 0.05 and has a coefficient value of 11.77467, this indicates that the Institutional Ownership variable has a positive and significant effect on Firm Value. Then the hypothesis (H1) states that Institutional Ownership has a positive effect on Firm Value.

DISCUSSION OF RESEARCH RESULTS

Analysis of the Effect of Profitability on Firm Value

The result of the statistical hypothesis test (H1) is that profitability has an effect on firm value, thus the fourth hypothesis (H1) is accepted. This is in line with previous research, namely Karina Esmeralda (2020). The profitability variable proxied by return on equity (ROE) has a positive and significant effect on firm value proxied by price to book value (PBV). These results indicate that the higher the return on equity shows the company is successful in managing and empowering its equity to generate profits.

In this regard, it will have a positive impact on investors, namely creating added value to attract investors to invest their funds in manufacturing companies in the food and beverages sector listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019. So that it will make the stock price increase, in other words a high return on equity, the ability of the company's management to optimize its capital used to generate higher profits, this will be a positive signal for investors that the company can have a positive influence on the value of manufacturing companies in the food sector and beverages listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019.

Analysis of the Effect of Leverage on Firm Value

Hypothesis statistical test results (H2), namely leverage does not have a significant effect on firm value, thus the second hypothesis (H2) is rejected. This is in accordance with the results of research by Noni and Nadia, (2017). The analysis shows that leverage has a negative effect on firm value. This result is not in accordance with the research hypothesis. These results are also in accordance with the research of Mahendra, *et al.*, (2012) and Nguyen, (2015) which state that leverage has a negative effect on firm value.

If the Debt to Equity Ratio is high, then the company has a high risk of not providing maximum returns to shareholders. The high DER ratio shows the more debt than the total assets owned by the company. This creates a high risk because the company does not have the ability to pay sufficient debt. When a company has the risk of paying insufficient debt, the company will risk giving less than optimal returns to shareholders, so that shareholders will give a negative assessment. This negative assessment will cause the stock price to fall, followed by a decline in the value of the company. (Yuliana and Juniarti 2015).

Hypothesis statistical test results (H3), namely Good Corporate Governance has an effect

With respect to firm value, thus the fifth hypothesis (H3) is accepted. This is in line with previous research, namely Tjondro and Wilopo (2011) showing the results that GCG has a positive influence on firm value. This is in line with the theory according to Gwenda and Juniarti, (2013).

With institutional ownership, it will be able to monitor the management team effectively and increase company value. Institution is an institution that has a big interest in the investment made including stock investment. So that usually the institution assigns responsibility to certain divisions to manage the company's investment. Because the institution professionally monitors the development of its investment, the level of control over management actions is very high so that the potential for fraud can be suppressed and can hinder the opportunistic behavior of Purwantini managers, (2011). And it is hoped that it can reduce fraud by management so as to reduce agency costs.

CONCLUSIONS AND SUGGESTIONS

CONCLUSION

Based on the results of the fixed effect model test above, to analyze the effect of Profitability, Leverage and Good Corporate Governance on Company Value at Food and Beverages companies listed on the Indonesia Stock Exchange for the period 2015-2019, the following conclusions can be drawn: Profitability has an effect on Firm Value in the Food and Beverages sub-sector for the 2015-2019 period; Leverage has no effect on Firm Value in the Food and Beverages sub-sector for the 2015-

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2019 period; Good Corporate Governance affects Company Value in the Food and Beverages sub-sector for the 2015-2019 period.

SUGGESTIONS

Based on the discussion and conclusions in this study, the Leverage variable has a negative effect on Firm Value. The researcher's suggestion to food and beverages sub-sector companies is to increase company value (Leverage), so companies are advised to be more efficient in using their assets to obtain sales by reducing total debt so that the company value (Leverage) can increase. With this condition, it is recommended that food and beverages sub-sector companies be able to fulfill their obligations both in terms of debt payments and regular dividend payments in order to maintain their financial stability.

From the results of this study, it is obtained that leverage has a negative effect. This shows that for investors (shareholders) who want to invest in the food and beverages sub-sector, investors must pay attention to the influencing variables, namely DER on Firm Value so as not to ignore good company value so that the investment made will be better. for the future.

To the next researcher, the researcher proposes suggestions to be able to add other independent variables that can affect Firm Value and can consider measuring tools for measuring firm value other than PBV, for example, Tobin's Q or Per. As well as increasing the research period because the longer the observation period, the greater the opportunity to obtain information and can bind investors to see long-term predictions rather than short-term ones.

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