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Corporate Governance, Firm Size, and Firm Value: Does Profitability Matter? Evidence from Indonesian State-Owned Enterprises

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ABSTRACT

Purpose – This study examines the effects of Good Corporate Governance (GCG) and firm size on firm value and investigates whether profitability, measured by Return on Assets (ROA), moderates these relationships in Indonesian State-Owned Enterprises (SOEs).
Design/methodology/approach – This study employs a quantitative approach using secondary data from 14 SOEs observed over the 2021–2025 period, resulting in 70 firm-year observations. The data were analyzed using multiple regression and Moderated Regression Analysis (MRA) with IBM SPSS Statistics 26. After outlier screening, 64 observations were used in the final analysis.
Finding/Results – The results show that GCG has a positive and significant effect on firm value, while firm size has a negative and significant effect. ROA has a positive and significant effect on firm value. ROA does not significantly moderate the relationship between GCG and firm value, but significantly moderates the relationship between firm size and firm value in a negative direction. These findings indicate that profitability does not uniformly strengthen the effects of corporate characteristics on market valuation.
Originality/Value – This study contributes to the literature by demonstrating that the role of profitability as a moderator depends on the specific corporate characteristic being examined. The findings imply that SOE management should focus not only on governance quality and asset growth but also on the efficiency and productivity of corporate resources in creating firm value.

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1. Introduction

Firm value reflects how the market assesses a company's current performance and its prospects for generating economic benefits in the future. For investors, market valuation is not determined solely by the amount of assets or profits reported by a company, but also by their assessment of how effectively corporate resources are managed. This makes firm value an important outcome for understanding the economic consequences of managerial decisions and corporate characteristics. Previous research has examined profitability, firm size, and corporate governance as important factors associated with firm value, although the strength and direction of these relationships have not always been consistent (Agustiningsih & Septiani, 2022; Wardhani et al., 2021).

Corporate governance is one of the mechanisms through which companies can establish greater transparency and accountability in the management of corporate resources. Effective governance reduces the opportunity for managerial opportunism and can provide shareholders with greater confidence in the information disclosed by management. From the investor's perspective, better governance may therefore improve the credibility of corporate decisions and ultimately influence market valuation. Laksmi & Wirawati (2022) found that corporate governance is associated with firm value, while Bakhtiar & Rokhayati (2023) examined the relationship between corporate governance, profitability, and firm value. These findings suggest that the role of corporate governance should not necessarily be viewed independently of the company's financial condition.

Firm size provides another perspective for understanding differences in firm value. Companies with larger asset bases generally have greater operational capacity and may possess broader access to external financing. However, a large scale of operations does not automatically mean that resources are being used efficiently. The market may respond differently to large firms depending on their ability to convert those resources into productive economic outcomes. Empirical evidence has shown that firm size is frequently examined as a determinant of firm value, although its effect can vary across industries and research settings (Clarinda et al., 2023). This suggests that the economic significance of firm size may depend on other characteristics of the company.

Profitability is particularly relevant in this context because it provides an observable indication of how efficiently a company uses its resources to generate returns. A company with a strong ability to generate profits may send a favorable signal to investors regarding managerial effectiveness and future prospects. Profitability can therefore influence how investors interpret other corporate characteristics, particularly when assessing whether a large asset base is being utilized productively. Bahriah et al. (2022) demonstrate the relevance of profitability within a moderating framework involving firm size and firm value, while Hermawaty & Sudana (2023) provide evidence concerning the relationship between profitability, firm size, and firm value.

The role of profitability becomes more important when it is considered not merely as a direct determinant of firm value but also as a factor that may alter the effects of other firm characteristics. A high level of profitability may enhance the credibility of corporate governance because investors can observe whether governance mechanisms are accompanied by tangible financial outcomes. Likewise, profitability may influence whether a large company is perceived as economically efficient or merely as an organization with a substantial resource base. In this sense, profitability may represent a condition under which corporate governance and firm size become more or less relevant to market valuation. This perspective is supported by studies that explicitly examine profitability as a moderating variable in the relationship between corporate governance, firm size, and firm value (Mawardani et al., 2023; Nugraheni & Suaryana, 2024).

Nevertheless, the empirical evidence does not provide a uniform conclusion regarding these relationships. Some studies report that profitability and firm size contribute to higher firm value, whereas other findings indicate that their effects depend on additional corporate characteristics. Agustiningsih & Septiani (2022) highlight the relevance of firm size and profitability to firm value, while Carolin & Susilawati (2024) similarly examine firm size and profitability as determinants of firm value. More recent research has continued to explore moderation mechanisms, suggesting that the relationship between firm characteristics and firm value remains an open empirical issue rather than a settled conclusion (Aritonang et al., 2025).

This unresolved issue is particularly important in the context of Indonesian State-Owned Enterprises (SOEs). SOEs possess distinctive characteristics because their operations combine commercial objectives with broader strategic and public interests. Their relatively substantial asset bases also make firm size an important characteristic when assessing market valuation. At the same time, governance quality and financial performance become important considerations for investors in evaluating whether these resources are being managed effectively. Research on Indonesian companies has already examined corporate governance, firm size, profitability, and firm value, but the evidence available in the literature is largely concentrated on specific sectors such as mining, manufacturing, food and beverages, and other listed companies (Handayani & Rahyuda, 2025; Mawardani et al., 2023). This leaves room for further examination within the specific institutional setting of Indonesian SOEs.

Accordingly, this study examines the relationship between corporate governance, firm size, and firm value while positioning profitability as a moderating variable. Corporate governance and firm size are treated as the main explanatory variables, while firm value is measured using Tobin's Q. Profitability is measured using Return on Assets (ROA). The study specifically tests whether ROA changes the relationship between corporate governance and firm value and whether it changes the relationship between firm size and firm value. The empirical analysis focuses on Indonesian SOEs during the 2021–2025 period.

The study contributes to the existing literature by shifting the discussion from whether corporate governance, firm size, and profitability are individually associated with firm value toward examining whether profitability changes the valuation effects of corporate governance and firm size. This distinction is important because a company may possess strong governance structures or a substantial asset base without necessarily receiving a higher market valuation if these characteristics are not accompanied by adequate financial performance. By testing the interaction between ROA and both corporate governance and firm size, this study provides a more conditional perspective on firm value formation in Indonesian SOEs..

2. Literature Review & Hypothesis Development

2.1. Theoretical Foundation

The relationship between corporate governance, firm size, profitability, and firm value can be understood through the signaling perspective. In capital markets, investors do not have complete information about the quality of managerial decisions, the efficiency of resource utilization, or the sustainability of corporate performance. Corporate characteristics and financial outcomes therefore become important sources of information through which investors form expectations about future performance. In this setting, corporate governance and profitability can provide different but complementary signals: governance reflects the quality of monitoring and accountability, while profitability indicates the extent to which corporate resources are translated into financial returns.

The signaling perspective is particularly relevant to firm value because market valuation incorporates not only realized performance but also investors' expectations about future economic benefits. Strong governance may reduce uncertainty surrounding managerial actions and improve the credibility of corporate disclosures. At the same time, profitability provides a more direct indication of the firm's ability to generate returns from its resources. When these signals are consistent, investors may perceive the firm as having stronger prospects and lower information risk. Prior research similarly argues that governance and financial performance are important elements in explaining how investors assess corporate value (Bakhtiar & Rokhayati, 2023; Laksmi & Wirawati, 2022).

The theoretical argument becomes more nuanced when profitability is considered as a moderating condition rather than merely an explanatory variable. A governance mechanism may exist formally within a company, but its economic relevance to investors may depend on whether the company is able to demonstrate tangible financial outcomes. Likewise, a large asset base may represent market strength when those assets generate adequate returns, but may signal inefficiency when resources are underutilized. Profitability can therefore influence the extent to which investors translate corporate governance and firm size into market valuation.

2.2. Corporate Governance and Firm Value

Corporate governance represents the mechanisms used to direct, monitor, and control corporate activities in order to align managerial decisions with the interests of shareholders and other stakeholders. Effective governance can reduce agency problems by strengthening oversight and improving the transparency of managerial actions. From an investor perspective, such mechanisms can increase confidence that reported information more accurately reflects the underlying condition of the company.

The connection between governance and firm value is supported by both theoretical reasoning and empirical evidence. Stronger governance can limit managerial opportunism, improve accountability, and reduce information asymmetry, thereby potentially lowering the risk perceived by investors. Evidence from international research also demonstrates that governance arrangements can influence market valuation in SOEs.

The relevance of governance to valuation is also evident in the Indonesian context. Laksmi & Wirawati (2022) found an association between GCG and firm value, while Bakhtiar & Rokhayati (2023) examined GCG together with profitability in explaining firm value. More recent evidence from Indonesian SOEs shows that corporate governance characteristics remain relevant when explaining market-based valuation, although the specific governance dimensions and their effects may differ across institutional settings.

For SOEs, the governance–value relationship may be particularly important because these companies operate under a combination of commercial and public objectives. The presence of government ownership does not eliminate the need for effective monitoring; instead, it may make governance more consequential because investors must assess whether managerial decisions are consistent with both economic and institutional objectives.

Therefore, better corporate governance is expected to increase investor confidence and contribute to higher firm value.

H1: Corporate governance has a positive effect on firm value.

2.3. Firm Size and Firm Value

Firm size reflects the scale of resources controlled by a company and is commonly represented by total assets. Larger firms generally possess greater operational capacity, broader market reach, and potentially stronger access to external financing. These characteristics can create advantages in terms of business continuity and resource availability, which may be positively interpreted by investors.

However, firm size does not automatically translate into higher firm value. Large organizations may also face greater bureaucratic complexity, coordination costs, and challenges in maintaining operational efficiency. Consequently, the market may distinguish between firms that merely possess substantial assets and those that are capable of generating adequate economic returns from those assets. This distinction is particularly important when firm size is examined in relation to other indicators of corporate performance.

Previous research provides mixed evidence regarding the relationship between firm size and firm value. Agustiningsih & Septiani (2022) identify firm size as one of the characteristics associated with firm value, while Clarinda et al. (2023) similarly examine firm size alongside profitability and other financial factors. Other studies, however, indicate that the effect of firm size may be sensitive to sectoral characteristics and the broader financial condition of the firm. This inconsistency suggests that asset scale alone may not be sufficient to explain market valuation.

The issue is especially relevant for SOEs because many of these companies operate with substantial asset bases. A large asset base can indicate strategic importance and organizational capacity, but it can also create expectations regarding efficient resource utilization. Recent evidence from Indonesian SOEs shows that firm value is influenced by financial and governance-related characteristics, reinforcing the importance of examining how operational resources are translated into market valuation.

Accordingly, firm size is expected to influence firm value, although the strength of this relationship may depend on the company’s ability to generate financial returns from its resources.

H2: Firm size has a positive effect on firm value.

2.4. Profitability as a Moderating Variable

Profitability provides information about a firm’s ability to generate earnings from the resources under its control. In this study, profitability is measured by Return on Assets (ROA), which captures the efficiency with which total assets are converted into earnings. Unlike firm size, which primarily reflects the scale of resources, ROA provides information about the economic productivity of those resources.

The distinction between scale and productivity is important when examining firm value. A large company may attract investor attention because of its substantial resources, but the market’s response is likely to depend on whether those resources generate adequate returns.

Similarly, corporate governance may be more valuable when it is accompanied by strong financial performance because investors can observe evidence that governance mechanisms are translated into effective resource allocation and financial outcomes.

Recent empirical evidence supports the importance of profitability in explaining firm value. A study of Indonesian SOEs found that profitability measured by ROA had a significant positive effect on firm value measured using Tobin's Q and Market-to-Book Value. Evidence from other Indonesian settings also indicates that profitability can interact with firm characteristics rather than simply exerting an independent effect on firm value.

This leads to a more specific question: does profitability change the way investors interpret corporate governance and firm size?

2.4.1. Profitability as a Moderator of the Corporate Governance–Firm Value Relationship

Corporate governance is expected to contribute to firm value by reducing agency conflicts, strengthening monitoring, and improving the credibility of corporate information. Nevertheless, governance mechanisms may not generate identical market responses across firms. Their effectiveness may depend on whether investors can observe corresponding improvements in financial performance.

When profitability is high, effective governance may be more credible because the firm demonstrates an observable capacity to convert managerial decisions and corporate resources into financial returns. In this situation, governance and profitability provide complementary signals: governance reduces uncertainty concerning managerial behavior, while profitability provides evidence concerning the economic consequences of that behavior. Investors may consequently assign greater value to firms that combine sound governance with strong profitability.

Conversely, when profitability is weak, the presence of formal governance mechanisms may not be sufficient to convince investors that managerial oversight is translating into superior economic outcomes. The market may therefore place less emphasis on governance quality when financial performance fails to provide supporting evidence. This reasoning suggests that profitability can strengthen the positive relationship between corporate governance and firm value.

Empirical evidence, however, remains inconclusive. Nugraheni and Suaryana (2024) found that profitability moderated the effect of GCG on firm value, indicating that financial performance can alter the valuation consequences of governance. Mawardani et al. (2023) similarly positioned profitability as a moderator of the relationship between GCG, firm size, and firm value.

These findings provide a basis for expecting an interaction between governance and profitability, while the differences across settings leave room for further testing.

H3: Profitability strengthens the positive effect of corporate governance on firm value.

2.4.2. Profitability as a Moderator of the Firm Size–Firm Value Relationship

The moderating role of profitability may be even more relevant to the relationship between firm size and firm value. Large firms control substantial assets, but asset ownership alone does not demonstrate that those assets are economically productive. ROA provides additional information by showing whether the firm can generate earnings from its asset base.

When profitability is high, a large asset base may be interpreted as evidence of productive capacity and effective resource utilization. Investors may therefore attach greater value to firm size when the company demonstrates an ability to generate adequate returns from its resources. In contrast, a large asset base accompanied by weak profitability may raise concerns about inefficient resource allocation, excessive operating costs, or underutilized assets. Profitability can therefore determine whether firm size is perceived as an advantage or a potential source of inefficiency.

Previous research provides support for this conditional perspective. Bahriah et al. (2022) examined profitability as a moderator of the relationship between firm size and firm value, while Putri & Ratna Mutumanikam (2022) found that profitability was able to moderate the relationship between firm size and firm value in manufacturing firms. Nugraheni & Suaryana (2024), however, reported that profitability did not moderate the effect of firm size on firm value in their sample, demonstrating that the moderating role of profitability is not universally established.

The conflicting evidence provides a meaningful basis for examining this relationship in SOEs, where substantial asset ownership is often accompanied by strategic responsibilities and complex operational structures. The extent to which investors reward firm scale may therefore depend on the firm's demonstrated ability to generate returns from its asset base.

H4: Profitability strengthens the positive effect of firm size on firm value.

3. Methodology

This study employs a quantitative research design to examine the relationships among GCG, firm size, profitability, and firm value in Indonesian SOEs during the 2021–2025 period. The study uses secondary data obtained from annual reports and financial statements of the selected SOEs. The unit of analysis is the firm-year observation. The sample was determined using purposive sampling based on the availability and completeness of the required corporate governance and financial information throughout the observation period. Based on the sampling criteria, 14 SOEs were selected, resulting in 70 firm-year observations over the five-year observation period (14 companies × 5 years). Firm value is measured using Tobin's Q, firm size is measured by the natural logarithm of total assets (LNTA), and profitability is measured by Return on Assets (ROA). GCG represents the corporate governance variable, while ROA is positioned as the moderating variable.

The analysis was performed using IBM SPSS Statistics 26. Moderated Regression Analysis (MRA) was employed to examine whether ROA changes the relationship between GCG and firm value and between firm size and firm value. The regression model includes GCG, LNTA, ROA, GCG × ROA, and LNTA × ROA as explanatory variables. The model is formulated as follows:

$$Tobin'sQit=\beta0+\beta1GCGit+\beta2LNTAit+\beta3ROAit+\beta4(GCGit\times ROAit)+\beta5(LNTAit\times ROAit)+\varepsilon it$$

The regression analysis is designed to assess both the direct effects of GCG, firm size, and ROA on firm value and the interaction effects between ROA and the two explanatory variables.

Before hypothesis testing, the regression model was assessed through diagnostic procedures to ensure that the data met the relevant regression assumptions. Normality was examined using the Kolmogorov–Smirnov test applied to the regression residuals, while multicollinearity was assessed using Tolerance and Variance Inflation Factor (VIF) values. A significance value above 0.05 in the Kolmogorov–Smirnov test indicates that the residuals are normally distributed, while Tolerance values above 0.10 and VIF values below 10 indicate the absence of problematic multicollinearity. Hypothesis testing was conducted using the t-test at a 5% significance level, while the F-test was used to evaluate the joint significance of the explanatory variables. The coefficient of determination, particularly Adjusted (R^2), was also examined to assess the explanatory power of the regression model. Potential outliers were subsequently examined using Casewise Diagnostics in SPSS 26 and are discussed separately in the results section (Ghozali, 2021; Sugiyono, 2022).

4. Result and Discussion

This section presents and discusses the empirical findings based on 70 firm-year observations from 14 Indonesian SOEs during the 2021–2025 period. The analysis examines the relationships among GCG, firm size, profitability, and firm value, with particular attention to the moderating role of profitability. The results are interpreted not only based on statistical significance and coefficient direction but also by considering the underlying theoretical arguments and previous empirical evidence, thereby providing an explanation of why the observed relationships occur and how the findings contribute to addressing the inconsistent evidence concerning the determinants of firm value in SOEs.

4.1. Result

Before conducting the regression analysis, classical assumption tests were performed to ensure that the regression model met the required statistical conditions. The tests consisted of the normality test using the Kolmogorov–Smirnov method and the multicollinearity test using Tolerance and Variance Inflation Factor (VIF). The normality test was conducted in two stages because the initial 70 observations produced a significance value below 0.05. Following the identification and removal of extreme observations through Casewise Diagnostics, the normality test was repeated using 64 observations and produced a significance value of 0.200, indicating that the residuals were normally distributed.

Table 1. Results of Classical Assumption Tests

Test	Observation	Value	Criterion	Conclusion
Normality – Kolmogorov–Smirnov	70	0.000	> 0.05	Not normally distributed
Normality – Kolmogorov–Smirnov	64	0.200	> 0.05	Normally distributed
Multicollinearity – GCG	64	Tolerance = 0.939; VIF = 1.065	Tolerance > 0.10; VIF < 10	No multicollinearity
Multicollinearity – LNTA	64	Tolerance = 0.939; VIF = 1.065	Tolerance > 0.10; VIF < 10	No multicollinearity

Notes: The normality test was performed on the regression residuals. The multicollinearity test was assessed using Tolerance and VIF values.

The classical assumption tests indicate that the initial 70 observations did not satisfy the normality assumption, as the Kolmogorov–Smirnov significance value was 0.000, below the 0.05 threshold. After the outlier screening process, the analysis was performed using 64 observations, and the significance value increased to 0.200, indicating that the residuals were normally distributed. The multicollinearity test further showed Tolerance and VIF values of 0.939 and 1.065, respectively, for both GCG and LNTA. These values indicate that the two variables did not exhibit problematic multicollinearity. Thus, based on the available diagnostic results, the regression model met the normality and multicollinearity requirements for the subsequent analysis.

Table 2. Regression Results

Relationship	Coefficient (B)	Beta	t	Sig.	Direction	Result
GCG → Firm Value	29.798	0.787	7.649	0.000	Positive	Significant
Firm Size → Firm Value	-0.263	-0.239	-2.954	0.005	Negative	Significant
ROA → Firm Value	133.352	12.059	3.349	0.001	Positive	Significant
GCG × ROA → Firm Value	-78.163	-5.892	-1.265	0.211	Negative	Not significant
Firm Size × ROA → Firm Value	-2.691	-5.744	-3.078	0.003	Negative	Significant
Constant of -17.318						
Adjusted R Square of 0.740						
F-statistic of 36.856						

Notes: Dependent variable: Tobin's Q. Predictors: GCG, LNTA, ROA, GCG × ROA, and LNTA × ROA.

The ANOVA results show that the regression model is statistically significant, with an F-statistic of 36.856 and a significance value of 0.000. Since the significance value is below 0.05, the explanatory variables jointly have a statistically significant relationship with firm value. This result indicates that GCG, firm size, ROA, and the two interaction terms collectively provide significant explanatory information regarding variations in firm value. Therefore, the proposed regression model provides an appropriate basis for examining the individual coefficients and moderating effects.

The model summary further shows an Adjusted R Square of 0.740 indicates that the model retains an explanatory power of 74.0%. This relatively high explanatory capability suggests that the variables incorporated into the model provide substantial information for explaining differences in firm value among the observed SOEs.

The estimated regression equation based on the unstandardized coefficients is:

$$Tobin'sQ = -17.318+29.798GCG-0.263LNTA+133.352ROA-78.163(GCGxROA)-2.691(LNTAx ROA)$$

The partial regression results in Table 2 show that GCG has a positive and statistically significant coefficient of 29.798, with a t-value of 7.649 and a significance value of 0.000. Firm size has a negative and statistically significant coefficient of -0.263, with a t-value of -2.954 and a significance value of 0.005. ROA has a positive and statistically significant coefficient of 133.352, with a t-value of 3.349 and a significance value of 0.001. These results indicate that GCG and ROA are positively associated with firm value, whereas firm size has a negative association with firm value in the observed SOEs.

The interaction between GCG and ROA has a coefficient of -78.163 and a significance value of 0.211. Because the significance value exceeds 0.05, the interaction is not statistically significant, indicating that ROA does not significantly moderate the relationship between GCG and firm value. In contrast, the interaction between firm size and ROA has a coefficient of -2.691 and a significance value of 0.003. The statistically significant negative coefficient indicates that ROA significantly moderates the relationship between firm size and firm value, with the interaction operating in a negative direction.

4.2. Discussion

The empirical findings reveal several important patterns regarding the determinants of firm value in Indonesian State-Owned Enterprises (SOEs). GCG has a positive and significant effect on firm value, as indicated by a coefficient of 29.798 and a significance value of 0.000. This finding suggests that stronger governance is associated with higher market valuation. From the signaling perspective, effective governance provides investors with information concerning the quality of monitoring, accountability, and managerial control within the company. When governance mechanisms are perceived to function effectively, uncertainty surrounding managerial decisions may decline, while investor confidence in the reliability of corporate information may increase. This condition can contribute to a more favorable assessment of the company's future prospects. The finding is consistent with Laksmi and Wirawati (2022), who found an association between GCG and firm value, and Bakhtiar and Rokhayati (2023), who examined governance together with profitability in explaining firm value. The positive relationship is particularly relevant for SOEs because their operations involve not only commercial objectives but also broader strategic responsibilities. Under such conditions, effective governance may provide investors with greater assurance that substantial corporate resources are subject to appropriate oversight and accountability.

In contrast, firm size has a negative and significant effect on firm value, with a coefficient of -0.263 and a significance value of 0.005. This result indicates that a larger asset base does not necessarily lead to a higher market valuation among the observed SOEs. The finding can be understood by distinguishing between the scale of resources and the productivity of those resources. Firm size reflects the amount of assets controlled by a company, whereas firm value reflects market expectations regarding the economic benefits that can be generated from those assets. A large asset base may therefore be viewed less favorably when it is accompanied by operational complexity, inefficient resource allocation, or insufficient returns. This finding provides an important explanation for the inconsistent evidence regarding firm size and firm value reported in previous studies (Agustiningsih & Septiani, 2022; Clarinda et al., 2023). In the context of Indonesian SOEs, investors may place greater emphasis on how efficiently assets are utilized rather than simply on the magnitude of assets controlled by the company. Thus, greater organizational scale does not automatically represent greater economic value.

ROA, on the other hand, has a positive and significant effect on firm value, with a coefficient of 133.352 and a significance value of 0.001. This finding indicates that profitability is an important consideration in the market valuation of SOEs. Unlike firm size, which primarily represents the scale of resources, ROA provides information concerning the ability of management to generate earnings from those resources. Higher ROA can therefore serve as a favorable signal of managerial effectiveness and productive asset utilization. Investors may interpret stronger profitability as evidence that the company has a greater capacity to generate future economic benefits, resulting in a more favorable market assessment. This finding is consistent with previous research emphasizing the importance of profitability in explaining firm value (Bahriah et al., 2022; Hermawaty & Sudana, 2023). The positive direct effect of ROA also demonstrates that financial performance remains an important mechanism through which corporate resources are translated into market valuation.

The moderating results, however, provide a more nuanced picture. The interaction between GCG and ROA is negative but statistically insignificant, with a coefficient of -78.163 and a significance value of 0.211. This indicates that ROA does not significantly change the relationship between GCG and firm value. The result does not support the expectation that stronger profitability necessarily enhances the valuation effect of governance. One possible explanation is that investors may evaluate governance quality and profitability as relatively distinct sources of information. GCG provides information regarding monitoring, accountability, and managerial oversight, whereas ROA reflects realized financial performance. Consequently, stronger profitability may increase firm value directly without necessarily changing the extent to which investors value corporate governance. This finding adds to the mixed empirical evidence concerning the moderating role of profitability. Although previous studies have reported that profitability can moderate the relationship between GCG and firm value, the present finding suggests that this effect may not be universal across institutional settings (Mawardani et al., 2023; Nugraheni & Suaryana, 2024). For Indonesian SOEs, the market valuation associated with governance quality may therefore remain relatively independent of the level of profitability.

The interaction between firm size and ROA produces a different result. The coefficient is -2.691 with a significance value of 0.003, indicating a significant moderating effect in a negative direction. This finding suggests that ROA changes the relationship between firm size and firm value, but not in the expected strengthening direction. The negative interaction may indicate that investors become more critical of large asset bases when evaluating profitability and market value simultaneously. A substantial asset base creates expectations that those assets should generate adequate economic returns. Consequently, when profitability becomes an important consideration, investors may focus more closely on the efficiency and productivity of the assets underlying firm size rather than simply rewarding organizational scale. This interpretation is particularly relevant for SOEs, which generally operate with substantial resources and complex organizational structures. The finding also extends previous research that has produced inconsistent conclusions concerning the moderating role of profitability in the firm size–firm value relationship. While Bahriah et al. (2022) and Maulidina et al. (2024) provide evidence of a moderating effect, Nugraheni and Suaryana (2024) report an insignificant effect. The present study contributes to this debate by demonstrating that the moderating effect can be significant but operate in a negative direction. Taken together, the findings indicate that profitability does not function as a universal strengthening mechanism for firm characteristics. Instead, its role depends on the specific relationship being examined. GCG remains positively associated with firm value regardless of the moderating effect of ROA, whereas the negative interaction between firm size and ROA suggests that the market places greater emphasis on the efficiency of large asset bases when assessing the value of SOEs. This finding provides a more conditional explanation of firm value formation and helps address the inconsistent evidence identified in the previous literature.

5. Conclusion and Suggestion

This study examines the relationships between GCG, firm size, profitability, and firm value in Indonesian SOEs during the 2021–2025 period, with particular attention to the moderating role of profitability. The findings show that GCG has a positive and significant effect on firm value, whereas firm size has a negative and significant effect, indicating that a larger asset base does not automatically translate into higher market valuation. Profitability, measured by ROA, has a positive and significant effect on firm value, confirming the importance of financial performance in shaping market valuation. However, the moderating role of ROA is not uniform: ROA does not significantly moderate the relationship between GCG and firm value, while it significantly moderates the relationship between firm size and firm value in a negative direction. These findings provide an empirical contribution by demonstrating that profitability does not necessarily strengthen the valuation effects of all corporate characteristics and theoretically extend the signaling perspective by showing that investors may interpret governance, organizational scale, and financial performance differently. From a practical perspective, SOE management should prioritize effective governance, productive asset utilization, and sustainable profitability rather than focusing solely on asset expansion, while investors should consider GCG and ROA when evaluating SOE value and assess firm size together with the company’s ability to generate adequate returns from its assets.

6. Limitations and Future Research

This study has several limitations. First, the sample is limited to 14 SOEs over the 2021–2025 period, which may limit the generalizability of the findings to other types of companies. Second, the study only examines GCG, firm size, and ROA, while other factors may also influence firm value. Future research can use a larger sample, extend the observation period, and include other variables such as capital structure, ownership structure, dividend policy, or investment decisions to provide a broader understanding of the determinants of firm value.

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