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# The role of good corporate governance in enhancing firm value: Operational efficiency as a mediating variable in financial conglomerate banking companies in Indonesia

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**Abstract:** This study is motivated by the inconsistent empirical findings regarding the influence of Good Corporate Governance (GCG) on firm value, particularly in financial conglomerate banking companies in Indonesia. The purpose of this study is to empirically examine the impact of GCG on firm value, with operational efficiency serving as a mediating variable. Employing a quantitative approach, this research utilizes path analysis and multiple linear regression on secondary banking data covering the period from 2015 to 2023. The findings indicate that the implementation of GCG has a positive and significant impact on firm value. Moreover, GCG significantly influences operational efficiency, which in turn mediates the relationship between GCG and firm value more strongly than the direct effect alone. The study concludes that an effective and structured implementation of GCG not only enhances internal operational efficiency but also strengthens firm value in the eyes of shareholders and investors. These findings provide important implications for policymakers and corporate management in enhancing the competitiveness of the financial sector.

***Keywords:*** *Corporate governance, Financial conglomerates, Firm value, Operational efficiency.*

## 1. Introduction

Firm value can be influenced by the implementation of good corporate governance (GCG). The concept of GCG began to gain recognition in Indonesia following the economic crisis of 1998. GCG functions as a mechanism for managing the relationship between company management and its stakeholders to achieve corporate objectives and enhance the company's contribution to the national economy [1]. According to agency theory, the interaction between principals and corporate management creates what is known as the agency problem. As agents of the principals, corporate managers often have interests that diverge from the principals' goal of maximizing welfare through the firm's business activities [2]. Furthermore, Jensen and Meckling [2] emphasized that both internal and external control and oversight functions within the corporate governance mechanism can influence firm performance reflected in increased firm value due to the reduction in costs associated with agency problems.

Considering the current state of companies particularly the financial services sector, which has demonstrated sustainable and stable growth this sector serves as a key prerequisite for enabling the financial system to support financial stability and play an optimal role in the national economy. The financial industry is characterized by high operational complexity and intense competition, which in turn exposes it to significant risks and demands prudent and efficient operations. With the advancement of globalization, information technology, product innovation, and the activities of Financial Service Institutions (FSIs), a financial system has emerged that is complex, dynamic, and interconnected across sectors in terms of products, institutional structures, and ownership. In response to these conditions, FSIs must implement sound governance practices within both individual institutions and financial


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conglomerates. To achieve effective integrated governance, financial conglomerates must establish Integrated Governance Guidelines based on conservative regulations to serve as a framework for FSIs within the conglomerate. These guidelines are expected to improve the quality of integrated governance practices. The implementation of good corporate governance helps mitigate agency conflicts, thereby increasing the transparency of information disclosed by managers to shareholders. Studies by Yuliusman and Kusuma [3] as well as Retno and Priantinah [4] utilizing the Corporate Governance Perception Index (CGPI) as an indicator, concluded that GCG has a positive influence on firm value.

Studies by Farooq, et al. [5]; Boachie [6]; Safitri and Kamil [7]; Irmalasari, et al. [8]; Ekasari and Kus Noegroho [9] and Firdausya and Effendi [10] which employed different GCG indicators such as board size, audit committee composition, and ownership structure (both institutional and managerial), also concluded that GCG has a positive impact on firm value. The implementation of GCG by a company enhances shareholder confidence in investing their capital in the firm. This confidence arises from the information gap between investors and management, where managers possess more comprehensive knowledge about the company's operations. Consequently, GCG disclosure serves to reduce information asymmetry. Furthermore, the implementation of GCG aims to optimize corporate performance, and is therefore believed to play a key role in increasing firm value.

Meanwhile, studies by Firmansyah, et al. [11] and Haryono and Paminto [12] as well as Susilo, et al. [13] concluded that corporate governance does not have a significant impact on firm value. Furthermore, research conducted by Ahmad, et al. [14]; Hapsari [15]; Mutmainah [16] and Sitorus and Sitorus [17] found that corporate governance has a negative effect on firm value. These conflicting findings highlight the need for further investigation and empirical testing regarding the influence of corporate governance on firm value.

This study is motivated by the complexity of financial conglomerate structures in Indonesia, which has the potential to increase risk exposure and create new challenges in maintaining the stability of the financial sector. The main issue addressed in this research is the suboptimal understanding of the implementation of Good Corporate Governance (GCG) in relation to firm value, particularly within the financial conglomerate sector, as well as how operational efficiency may serve as a mediating variable in this relationship. The study aims to empirically examine and analyze the influence of each of these factors on firm value and operational efficiency, and to assess the role of efficiency as a mediator in the causal relationship. Additionally, this research offers practical contributions for regulators, financial service industry practitioners, and shareholders in formulating more adaptive and systematic governance policies to enhance firm value and mitigate potential systemic risks within the financial sector.

## 2. Method

This study adopts a quantitative research approach. The quantitative data will be analyzed using statistical methods. The research is classified as causal in nature, as it aims to test the relationships between variables [18]. Specifically, the study examines the relationship between the implementation of Good Corporate Governance (GCG) and firm value, as well as the relationship between GCG implementation and operational efficiency. Additionally, it investigates the mediating role of operational efficiency in the relationship between GCG and firm value.

The population of this study comprises the banking sector entities that are part of financial conglomerates in Indonesia. The research period spans from 2015 to 2023. This timeframe was selected because it follows the issuance of specific regulations in 2014 that govern financial conglomerates within the Indonesian banking industry. The impact of these regulations began to emerge in 2015.

The sample is a subset of the population consisting of selected members. By studying the sample, researchers are expected to draw conclusions that can be generalized to the target population [18].

In this study, the researcher utilized secondary data collected from the official website of the Financial Services Authority (OJK), which includes data on the banking sector and other financial service sectors. The data were analyzed using descriptive statistical analysis and inferential statistical analysis, specifically through path analysis and multiple linear regression. Path analysis was employed to examine the effects within the multiple regression framework, capturing both the direct and indirect influences of the independent variables on the dependent variable.

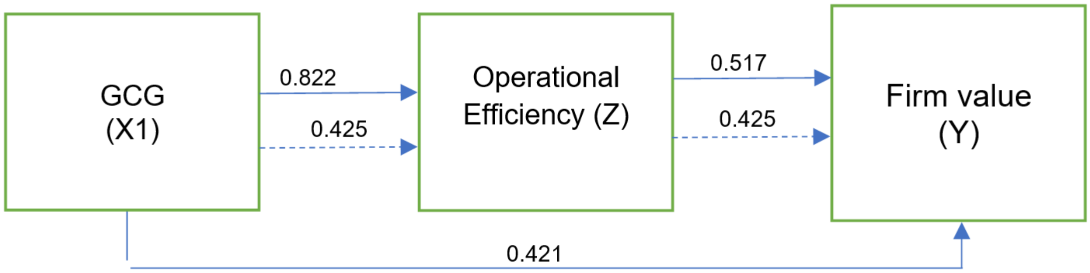


**Figure 1.**
Structural Models.

## 3. Results and Discussion

Based on the research findings as presented in the data above, the relationship between the independent and dependent variables is illustrated in Figure 1. From the table and figure, it is evident that: (1) the GCG variable has a positive and significant effect on firm value, and (2) the GCG variable also has a positive and significant effect on operational efficiency.

### *3.1. Improved Implementation of GCG Can Enhance Firm Value*

The data analysis on the effect of GCG implementation on firm value shows that the GCG coefficient has a directly positive relationship with firm value, with a coefficient of 0.421. This indicates that a one-unit increase in GCG implementation results in a 0.421-unit increase in firm value. This relationship is statistically significant, as evidenced by the p-value of 0.014, which is less than 5%.

The findings of this study support the hypothesis that an increase in the implementation of GCG can enhance firm value. The better a company applies the principles of GCG, the higher its firm value is likely to be.

### *3.2. GCG Implementation Can Improve Operational Efficiency*

The research data examining the effect of GCG implementation on operational efficiency indicate that the GCG coefficient has a directly positive relationship with operational efficiency, with a value of 0.822. This means that a one-unit increase in GCG implementation leads to a 0.822-unit increase in operational efficiency. The relationship between the two variables is statistically significant, with a p-value of 0.000, which is less than 5%.

The results of this study support the hypothesis that an increase in GCG implementation can enhance operational efficiency. The more effectively a company applies GCG principles, the greater the improvement in its operational efficiency.

### *3.3. Enhancing the Quality of GCG Implementation, Mediated by Operational Efficiency, Can Increase Firm Value*

The data from this study regarding the influence of GCG implementation on firm value, mediated by operational efficiency, show that the direct coefficient of GCG on firm value is 0.421, with a statistically significant effect (p-value = 0.014 < 5%). Meanwhile, the indirect effect of GCG on firm value through operational efficiency yields a coefficient of 0.425, which is also statistically significant (p-value = 0.011 < 5%). These findings indicate that the indirect effect mediated by operational efficiency is slightly stronger than the direct effect.

This suggests that a one-unit increase in GCG implementation directly increases firm value by 0.421 units, whereas when mediated by operational efficiency, firm value increases by 0.425 units. Therefore, operational efficiency plays an important mediating role in strengthening the impact of GCG on firm value. The findings of this study support the hypothesis that an increase in GCG implementation, when mediated by operational efficiency, can enhance firm value. The better a company implements GCG, the greater the improvement in firm value especially when operational efficiency acts as a mediating factor.

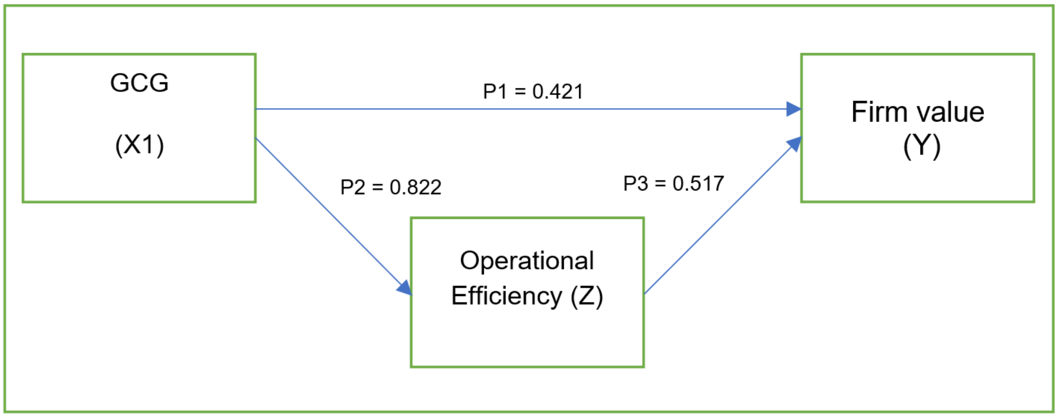


**Figure 2.**
The Relationship of GCG Implementation to Company Value.

As shown in Figure 2 above, the relationship between GCG implementation and operational efficiency (P2) is 0.822 and statistically significant. The relationship between operational efficiency and firm value (P3) is 0.517 and also significant. Therefore, the coefficient value of the indirect effect of GCG implementation on firm value through operational efficiency is calculated as $P2 \times P3 = 0.425$, and this relationship is statistically significant with a p-value of $0.011 < 5\%$. Since the coefficient of the indirect relationship ($P2 \times P3 = 0.425$) is greater than the direct effect of GCG implementation on firm value ($P1 = 0.421$), and both are significant, it can be concluded that operational efficiency functions as a mediating variable in the relationship between GCG and firm value.

### *3.4. Meningkatnya GCG Implementation Can Enhance Firm Value (H-1)*

The banking sector, as a crucial component of the financial services industry, must be continuously supported and strengthened. Banks are increasingly expected to remain competitive and responsive to dynamic changes in both their external and internal environments, which are becoming more complex and challenging. Strengthening the implementation of Good Corporate Governance (GCG) in banks is one of the key elements for enhancing competitiveness and increasing public and investor trust in the banking sector [19]. The implementation of GCG in banks is expected to have a positive impact on bank performance.

With the ongoing development of financial products and activities, as well as the adoption of information technology, the GCG framework in banks must be continuously refined to effectively anticipate emerging risks and ensure that banks are governed by reliable GCG practices and operate under sound business conduct. Experience has shown that failure to implement GCG is often a major cause of banks' inability to survive in a competitive market, and widespread banking failures can trigger crises in both the banking system and the broader economy.

Therefore, banks are increasingly required to operate with robust and integrated GCG systems supported by digitalization and technological innovation. This ensures compliance with regulations, adherence to standards, ethical values, and generally accepted principles and practices. It also helps in

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maintaining and building a foundation for value creation, optimizing sustainable performance, managing rights and responsibilities, and balancing the interests of shareholders and other stakeholders to more broadly contribute to national economic growth.

The implementation of GCG principles, in addition to being mandated by Financial Services Authority (OJK) regulations, is also considered an effective strategy for maximizing firm value, enhancing corporate performance and contribution, and ensuring long-term business sustainability. These principles encourage companies to manage their resources in an optimal and efficient manner.

Increasing firm value is a long-term goal that companies should strive to achieve, which is typically reflected in the market price of their shares. Investor assessments of a company can be observed through stock price movements in the exchange for publicly listed firms. In the process of maximizing firm value, conflicts of interest may arise between managers and shareholders (the owners of the company), commonly referred to as agency problems. These agency conflicts are caused by information asymmetry, wherein managers possess more detailed knowledge about the company than shareholders. Such conditions may lead managers to withhold certain information from shareholders [20]. To reduce this information asymmetry, a system is needed that can guide and control corporate governance [21]. The implementation of Good Corporate Governance (GCG) is expected to reduce agency conflicts, thereby enhancing the transparency of information disclosed by managers to shareholders and/or other stakeholders.

Regulations issued by the Financial Services Authority (OJK) regarding the implementation of GCG principles both for individual banks and for banks integrated within financial conglomerates are stipulated in POJK No. 17 of 2023 and POJK No. 18/POJK.03/2014. These two provisions emphasize that, in order to implement GCG at both the individual and integrated levels, financial conglomerates must establish Integrated GCG Guidelines. These guidelines serve as a reference for Financial Service Institutions (FSIs) within the conglomerate to implement GCG, thereby promoting improvements in the quality of integrated GCG practices. The application of integrated GCG is expected to encourage financial conglomerates to adopt more prudent governance in accordance with GCG principles, which include transparency, accountability, responsibility, independence, and fairness. Furthermore, the implementation of integrated GCG within financial conglomerates is anticipated to support the sustainable growth of the financial system, thereby enhancing national competitiveness.

The OJK regulation also requires banks within financial conglomerates to conduct a self-assessment of their integrated GCG implementation, resulting in a GCG score. This score provides a general overview of the overall evaluation of GCG practices across all business and organizational aspects of the bank. The results of this self-assessment and the resulting GCG rating must be reported to OJK on a semi-annual basis and included in the bank's public disclosure reports.

Based on the research findings during the 2015–2023 period, the data show that, on average, the implementation of GCG in financial conglomerate banks falls under the "good" category, and the average firm value is also classified as "good." This indicates that financial conglomerate banks have applied GCG principles effectively, resulting in strong firm value. Among these banks, two Bank Mandiri and Bank BCA achieved a "very good" rating in GCG implementation and also maintained a very high average firm value. This means that both banks consistently applied GCG principles at a high standard throughout the observation period. This included the effective execution of duties and responsibilities by the Board of Commissioners, Board of Directors, various committees, the Integrated Risk Management Unit, the Integrated Compliance Unit, and the Integrated Internal Audit Unit, as well as the successful preparation and implementation of the Integrated Governance Guidelines.

Upon further analysis, during the 2015–2023 period, the two banks that consistently implemented GCG at a very high level were supported by recognition and evaluations from credible and independent institutions specializing in corporate governance, such as the Indonesian Institute for Corporate Governance (IICG), the ASEAN Corporate Governance Scorecard (ACGS), the Indonesian Institute for Corporate Directorship (IICD), as well as OJK, Bank Indonesia (BI), and the Indonesia Stock Exchange (IDX). IICG, in collaboration with Swa magazine, assessed that Bank Mandiri had been consistently recognized for approximately 18 consecutive years as an institution with excellent and consistent adherence to GCG principles. ACGS recognized Bank BCA as an ASEAN Asset Class PLC and awarded it the "Best Overall" title at the 14th IICD Corporate Governance Conference & Award. Banks that implement GCG principles well and consistently tend to achieve higher firm value.

However, there are also two banks—Bank Victoria International and Bank KB Bukopin—whose GCG implementation is categorized as merely adequate, and whose average firm value is considered relatively low. As stated in their annual reports, Bank Victoria received a low GCG score in the application of GCG principles due to several reasons, such as:

1. Aspects of Completeness and Implementation of Committee Tasks that have not been able to meet the minimum standards set by the provisions of the OJK, namely:
   1) Committees have not been fully effective
   2) There are weaknesses in *monitoring*
2. The implementation of the Compliance Function and the Internal Audit Function that are not yet effective, namely:
   1) A culture of compliance has not been created at all levels of the bank's organization, because there are still violations.
   2) Audits need to be carried out more comprehensively/thoroughly, especially during the Covid-19 pandemic to be able to mitigate potential that may occur in bank operations.
   3) The implementation of Risk Management, including the Internal Control System which still needs to be improved because it still has considerable weaknesses,
3. Provision of Funds to Related *Parties* and Provision of Large Funds that are not well monitored:
   1) The provision of large funds includes the implementation of restructuring that has not been fully effective. The quality of existing credit has the potential to increase non-performing loans.
   2) There was an overreach of Bank Victoria's BMPK caused by the decline in the bank's capital (Tier 1).
4. The Bank's Strategic Plan that still needs to be improved:
   1) Implementation of the Bank's Business Plan that has not been running well,
   2) The achievement of performance is still not good due to inconsistencies in the process of providing funds, so that credit quality has the potential to interfere with the performance of the bank's profitability and capital.

Meanwhile, for KB Bukopin bank, the score was quite good because there were several factors that still needed to be perfected and completed, such as:

1. The completeness of the duties and responsibilities of the Board of Directors and Board of Commissioners that are not in accordance with the provisions of the OJK:
   1) Most of the members of the Board of Directors and Board of Commissioners have not been effective in their duties because they have not received approval from the OJK.
   2) The committees under the Board of Commissioners are not yet effective because they are not in accordance with the minimum provisions set by the OJK.
2. Assessment and evaluation of the effectiveness, adequacy, and suitability of policies, provisions, systems and procedures that are not in line with the development of the organization and business process:
   1) There are still policies that require adjustments/updates (not yet updated), including policies related to the stimulus of the Impact of the Spread of *Corona Virus Disease* (COVID-19) and interest subsidy policies for MSME loans in order to support the PEN program.
   2) There is a need for policies and procedures for resolving non-performing loans that regulate *Service Level Agreements* (SLAs) for handing over the management of non-performing debtors to work units that handle non-performing loans, including the preparation of *action plans* and monitoring the progress of non-performing loan settlements.

The weaknesses in GCG implementation at both banks mentioned above have significantly affected their financial performance, resulting in a decline in their firm value—falling below 100% in 2020. Thus, the findings of this study indicate that banks with poor GCG practices tend to have lower firm value as well.

Based on these results, it can be concluded that effective GCG implementation contributes positively to firm value. This implies that the bank's management, acting as agents, have fulfilled their duties in line with shareholder expectations by increasing the firm's value. These findings support governance theory as stated by the National Committee on Governance Policy (KNKG) [22] which emphasizes that good governance mechanisms are expected to ensure that managers perform in accordance with the expectations of the principals. The proper implementation of GCG encourages agents or managers to act in the best interest of the principals or shareholders of the company.

In relation to signaling theory, banks convey information to the public that they are implementing GCG principles to a high standard. Strong adherence to GCG principles can enhance investor confidence by signaling that the company is being managed properly—upholding transparency, accountability, responsibility, independence, and fairness. The implementation of GCG encourages management to utilize the company's resources effectively and efficiently in order to achieve the firm's objectives, particularly in generating increased profits. Higher profits reflect improved financial performance. This enhanced performance serves as a positive signal to investors, encouraging them to purchase the company's shares, which in turn leads to a rise in share price and an increase in firm value.

The findings of this study reinforce previous research conducted by Farooq, et al. [5]; Irmalasari, et al. [8]; Boachie [6]; Yuliusman and Kusuma [3]; Safitri and Kamil [7]; Ekasari and Kus Noegroho [9]; Laurensia [23] and Irawan and Devie [24] all of whom found that corporate governance has a positive impact on firm value. An increase in firm value reflects a company's performance that aligns with the expectations of shareholders [25]. The implementation of GCG by a company enhances investor confidence in allocating funds to the firm. This confidence arises from the information gap between investors and management, where management has superior access to company information. Corporate governance disclosure helps to reduce this information asymmetry. Furthermore, the application of GCG aims to maximize corporate performance, and is thus believed to contribute significantly to enhancing firm value. Based on the points discussed above, the findings of this study indicate that effective implementation of GCG has a significant and positive impact on firm value. This means that when a company improves its GCG practices, its firm value will directly increase. Conversely, a decline or deterioration in GCG implementation will directly lead to a decrease in firm value.

### *3.5. GCG Implementation Can Improve Operational Efficiency (H2)*

The banking sector is continuously required to remain competitive and responsive to the increasingly complex and dynamic changes in both external and internal environments, which are accompanied by growing challenges. Strengthening the implementation of GCG in banks is one of the key components for enhancing the competitiveness of the banking industry. Improving the quality of GCG implementation is a strategic effort to reinforce the internal conditions of banks. Sound banking management through the application of GCG enhances a company's operational efficiency and facilitates access to more affordable and flexible funding. Ultimately, this contributes significantly to economic growth and the overall economy of the country [26].

The long-term goal of every company is to increase firm value, which is reflected in the market price of its shares. Investor evaluations of a company can be observed through the movement of its stock prices on the exchange, particularly for companies that are publicly traded. In the process of maximizing firm value, conflicts of interest often arise between managers and shareholders (the company owners), commonly referred to as agency problems. These agency conflicts occur due to information asymmetry, where managers possess more comprehensive knowledge about the company than shareholders. This situation can lead managers to withhold certain information from shareholders [20]. To reduce such information asymmetry, a system is needed that can guide and control corporate behavior [21]. The implementation of Good Corporate Governance (GCG) is expected to mitigate agency conflicts, thereby enhancing the transparency of information disclosed by managers to shareholders and/or stakeholders.

In efforts to improve and enhance the quality of GCG implementation, banks are required to regularly conduct comprehensive self-assessments of the adequacy of their GCG practices. This enables banks to promptly develop an action plan that includes necessary corrective actions if deficiencies in GCG implementation are identified. As part of this assessment process, banks are required to complete the GCG Self-Assessment Worksheet and assign scores to each criterion by comparing them to the indicators established by Bank Indonesia. The GCG self-assessment consists of nine evaluation factors. These factors serve as a framework for the bank's internal analysis, based on the completed self-assessment worksheet. From the results of the self-assessment, the bank can determine a composite score derived from the weighted results of each assessment factor. This composite score is then used to determine the overall rating of GCG practices within the bank, based on the predefined composite categories.

In practice, the implementation of GCG in Indonesia's banking sector still requires significant improvement. With effective GCG implementation, companies can manage their operations more reliably, mitigate risks, maintain product quality standards, facilitate and enhance access to capital, and operate more efficiently. Banking efficiency plays a crucial role in supporting Indonesia's economy. The sustainability of banking operations depends on the banks' ability to maintain competitiveness, which is reflected in their operational efficiency.

Operational efficiency in managing business activities is a key requirement for increasing a company's revenue. The importance of efficiency should not only be a concern for the Board of Commissioners, the Board of Directors, and all levels of management but also a critical consideration for shareholders. A decline in efficiency affects not only a company's ability to generate income but also has broader implications for macroeconomic variables such as economic growth and income inequality [27].

To achieve efficiency, the implementation of Good Corporate Governance (GCG) must be applied across all levels and aspects of the company. This implementation must be carried out with discipline and consistency in accordance with all existing GCG principles, ensuring proper and effective operational execution and management, thereby enabling the realization of true efficiency.

Several studies have examined the relationship between GCG and efficiency. Salami [28] and Bzeouich [29] found that GCG has a positive impact on efficiency. Good corporate governance serves to maintain strong relationships with investors in the management of the company, thereby creating positive effects for all stakeholders [30]. The implementation of GCG principles is expected to assist management in achieving operational efficiency in pursuit of profitability and shareholder satisfaction [31]. However, other studies present contrasting findings. For instance, Ghofur and Sukmaningrum [32] and Jamil and Refi [33] found that GCG implementation negatively affects efficiency. Meanwhile, Kurniawan and Mahardika [34]; Eliana and Wahyuni [35] and Jannah and Rahmawati [36] concluded that GCG implementation has no significant effect on efficiency.

Regulations issued by the Financial Services Authority (OJK) require banks within financial conglomerates to conduct a self-assessment of their integrated GCG implementation. The results of this assessment are presented in the form of a GCG score, which provides a general overview of the bank's governance practices across all aspects of its business and organizational operations. The GCG score consists of five rating levels, ranging from 1 to 5, with lower scores indicating better GCG implementation. A score of 1 reflects the best application of GCG principles, while a score of 5 indicates the poorest implementation. The results of the self-assessment and the corresponding GCG rating must be reported to OJK on a semi-annual basis and also included in the bank's public reports.

Based on the findings of this study during the 2015–2023 period, data show that the implementation of GCG in financial conglomerate banks was generally rated as "good," with their operational efficiency also rated as "very good." This indicates that financial conglomerate banks applied GCG principles at a high standard, resulting in a correspondingly high level of operational efficiency.

Among these financial conglomerate banks, two—Bank Mandiri and Bank BCA—achieved a "very good" rating for both GCG implementation and operational efficiency. This suggests that both banks consistently applied GCG principles to a very high standard, which in turn enabled them to achieve exceptional operational efficiency. Their implementation of duties, responsibilities, and authority by the Board of Directors, Board of Commissioners, and various committees was carried out effectively. Conflict-of-interest management was handled efficiently, compliance and internal/external audit functions were well-executed, shareholder-related responsibilities were properly managed, and anti-fraud and anti-bribery strategies were implemented effectively.

A closer analysis during the observation period reveals that Bank Mandiri and Bank BCA were supported by recognition and evaluations from independent and credible institutions specializing in GCG, such as the Indonesian Institute for Corporate Governance (IICG), the ASEAN Corporate Governance Scorecard (ACGS), the Indonesian Institute for Corporate Directorship (IICD), OJK, Bank Indonesia (BI), and the Indonesia Stock Exchange (IDX). IICG, in collaboration with Swa Magazine, consistently rated Bank Mandiri over approximately 18 consecutive years as an institution that performs exceptionally well and adheres consistently to GCG principles. ACGS recognized BCA for achieving ASEAN Asset Class PLC status and awarded it the "Best Overall" title at the 14th IICD Corporate Governance Conference & Award. Banks that apply GCG principles consistently and effectively tend to exhibit higher firm value.

On the other hand, there were two banks—Bank Victoria International and Bank KB Bukopin—whose GCG implementation was categorized as only moderately good, resulting in highly inefficient operational performance. Bank Victoria International recorded severe inefficiencies during 2018–2020, while Bank KB Bukopin experienced similar inefficiencies during 2019–2020, as their operational costs significantly exceeded operational revenues. A deeper look, as outlined in their annual reports, reveals several reasons why Bank Victoria International was still rated poorly in terms of GCG implementation, including:

1. Aspects of Completeness and Implementation of Committee Tasks that have not been able to meet the minimum standards set by the provisions of the OJK, namely:
1) Committees have not been fully effective
2) There are weaknesses in *monitoring*
2. The implementation of the Compliance Function and the Internal Audit Function that are not yet effective, namely:
1) A culture of compliance has not been created at all levels of the bank's organization, because there are still violations.
2) Audits need to be carried out more comprehensively/thoroughly, especially during the Covid-19 pandemic to be able to mitigate potential that may occur in bank operations.
3) The implementation of Risk Management, including the Internal Control System which still needs to be improved because it still has considerable weaknesses,
3. Provision of Funds to Related *Parties* and Provision of Large Funds that are not well monitored:
1) The provision of large funds includes the implementation of restructuring that has not been fully effective. The quality of existing credit has the potential to increase non-performing loans.
2) There was an overreach of Bank Victoria's BMPK caused by the decline in the bank's capital (*Tier* 1).
4. The Bank's Strategic Plan that still needs to be improved:
1) Implementation of the Bank's Business Plan that has not been running well,
2) The achievement of performance is still not good due to inconsistencies in the process of providing funds, so that credit quality has the potential to interfere with the performance of the bank's profitability and capital.

Meanwhile, for KB Bukopin bank, as revealed in its annual report, the implementation of GCG is considered not good because there are several factors that still need to be refined and completed, such as:

1. The completeness of the duties and responsibilities of the Board of Directors and Board of Commissioners that are not in accordance with the provisions of the OJK:
1) Most of the members of the Board of Directors and Board of Commissioners have not been effective in their duties because they have not received approval from the OJK.
2) The committees under the Board of Commissioners are not yet effective because they are not in accordance with the minimum provisions set by the OJK.
2. Assessment and evaluation of the effectiveness, adequacy, and suitability of policies, provisions, systems and procedures that are not in line with the development of the organization and business process:
1) There are still policies that require adjustments/updates (not yet updated), including policies related to the stimulus of the Impact of the Spread of Corona Virus Disease (COVID-19) and interest subsidy policies for MSME loans in order to support the PEN program.
2) There is a need for policies and procedures for resolving non-performing loans that regulate *Service Level Agreements* (SLAs) for handing over the management of non-performing debtors to work units that handle non-performing loans, including the preparation of action plans and monitoring the progress of non-performing loan settlements.

The weaknesses in GCG implementation in both of the aforementioned banks have significantly impacted their financial performance, resulting in corporate inefficiency—where operational expenses far exceeded the operational revenues generated.

In relation to signaling theory, banks aim to communicate to the public that they implement GCG principles to a high standard. Strong adherence to GCG principles can enhance investor confidence by signaling that the company is well-managed and upholds the values of transparency, accountability, responsibility, independence, and fairness. The implementation of GCG encourages management to utilize company resources effectively and efficiently to achieve the firm's goals namely, increasing profits. Higher profits can be attained when a company succeeds in improving its operational efficiency. These increased profits reflect improved financial performance, which serves as a positive signal to investors, encouraging them to buy the company's shares. As a result, the share price rises, which in turn increases the firm's value.

The results of this study support and strengthen the results of research presented by Salami [28]; Bzeouich [29]; Saputra and Wardhani [30] and Silva and Majluf [31] which found that the application of good GCG in companies has a positive effect on efficiency.

The findings of the study show that increasing the implementation of GCG will be able to influence and increase efficiency significantly and positively. This means that when the implementation of GCG carried out by the company increases, it will directly increase efficiency. Conversely, when the implementation of GCG decreases or deteriorates, it will directly reduce efficiency.

### *3.6. GCG Implementation Mediated by Operational Efficiency Can Enhance Firm Value (H3)*

Effective GCG implementation is essential to supporting the operational activities of banking institutions. This is because companies require sound governance to ensure that all operational processes are conducted in a transparent, accountable, and efficient manner. While numerous studies have examined the relationship between GCG dimensions and corporate efficiency, in the specific context of financial service companies particularly banks within financial conglomerates the functional relationship between corporate efficiency and the application of GCG dimensions has not been extensively explored. Even when such studies exist, their findings often conflict with one another. This research seeks to analyze the influence of GCG implementation on firm value through the mediating role of efficiency in financial conglomerate banks in Indonesia.

The importance of efficiency in the banking industry should not only be a concern for management but also a critical consideration for the company's owners namely, the shareholders. Achieving efficient corporate management requires the establishment of good corporate governance. The core principles of

GCG transparency, accountability, responsibility, independence, and fairness are essential for ensuring business sustainability while taking stakeholder interests into account.

Banks that are financial conglomerates and those listed on the Indonesia Stock Exchange (IDX) need a good management system that can be used to achieve corporate goals, including determining strategies and policies, both in financial and non-financial terms. In a good company management system, the board of directors and the board of commissioners have a very important role. Good corporate governance will give the board and management an impetus to achieve the company's goals, which are in the interest of the company and its shareholders.

Increasing the company's value is a long-term goal that a company should achieve which will be reflected in its stock market price because investors' assessment of the company can be observed through the movement of the company's share price transacted on the stock exchange for a company that has gone *public*. In the process of maximizing the company's value, there will be a conflict of interest between the manager and the shareholders (company owners) which is often called *the agency problem*. Agency conflicts between managers and company owners are caused by the existence of information asymmetry in which managers are in positions where they have more information about the company. These conditions can encourage managers to hide some information that shareholders do not know [20]. To reduce the existence of asymmetric information, a system that can direct and control a company is needed [21]. The implementation of GCG is expected to reduce agency conflicts, thereby increasing the transparency of information provided by managers to shareholders and/or stakeholders.

The implementation of GCG carried out by companies will increase investor confidence to invest their funds in the company. This trust arises due to the lack of information owned by investors compared to management as the company's manager, so that governance disclosure can minimize information asymmetry that occurs. In addition, the implementation of GCG is carried out with the aim of maximizing the company's performance, so that the implementation of GCG in the company is believed to be able to participate in increasing the company's value. Good corporate governance is used to maintain good relations with investors in the management of the company so as to provide a positive influence for all interested parties. The implementation of GCG principles is expected to assist management in realizing the efficiency of company management in order to achieve the goal of achieving profits and fulfilling shareholders.

Based on the results of this study during the 2015-2023 period, data was obtained that the implementation of GCG in financial conglomerate banks is classified as good and has a very good company value. This means that the financial conglomerate bank has applied the GCG principles very well and obtained excellent corporate value as well. The implementation of GCG has a significant effect on the company's value.

Based on the results of the study, it can be understood that financial conglomerate banks that have excellent GCG implementation will directly affect the company's value significantly. The results of the study also show that financial conglomerate banks that have excellent GCG implementation, also have a significant and positive influence on efficiency. Likewise, financial conglomerate banks that have excellent efficiency have a significant and positive influence on the value of the company.

After testing in this study related to the effect of GCG implementation on company value, it was seen that after the mediation variable, namely operational efficiency, it was found that the operational efficiency variable still had a positive influence on company value and its influence was greater when compared to the direct influence of GCG application on company value. This means that the relationship between the application of GCG to the company's value indirectly through operational efficiency as a mediating variable is greater or stronger than the relationship between the application of GCG directly to the company's value. Regarding this relationship has been described earlier in Figure 5.3. The variable of operational efficiency in this case is as a mediation variable. Good and controlled operational efficiency will improve the company's financial performance so that it will increase the company's value.

The good implementation of GCG in companies will increase trust and provide positive value for investors. Companies will have easier access to funding sources, so that the interest burden on loans obtained by companies will be cheaper. Cheap access to funding for companies will increase efficiency, so that financial performance will be better, which will certainly increase the company's value.

In addition to providing flexibility in access to funding, a good GCG implementation will also be able to protect banks from irregularities or fraud that can harm the bank can be avoided or at least minimized so that banks are not burdened with costs that should not be, synergy between companies in financial conglomerates can run well so as to provide lower rates or costs. All of which will create operational efficiencies in financial conglomerates. Good and controlled operational efficiency will improve the company's financial performance so that it will increase the company's value.

With regard to signal theory, banks will provide information to the public that banks apply GCG principles very well. The application of excellent GCG principles can increase investor confidence that the company has been run well, upholding transparency, accountability, accountability, independence, and fairness. The implementation of GCG encourages management to manage company resources properly and more effectively in achieving the company's goals, namely increasing profits. Increased profits are a picture of a company's increasing financial performance, which is obtained because the company can improve operational efficiency. The good operational efficiency achieved and the company's improved financial performance will be a positive signal for investors to buy the company's shares so that the stock price will rise and have an impact on increasing the company's value.

The results of this study support previous research, such as Farooq, et al. [5]; Boachie [6]; Yuliusman and Kusuma [3]; Safitri and Kamil [7]; Irmalasari, et al. [8] and Ekasari and Kus Noegroho [9] found that corporate governance has a positive influence on company value. Meanwhile, research results from Bzeouich [29]; Saputra and Wardhani [30] and Silva and Majluf [31] found that the application of GCG has a positive effect on company efficiency. Furthermore, the research results of Jonathan [37]; Mashiri and Sebele [38] and Putri and Affandi [39] suggest that efficiency affects company value.

Based on the above, the findings of this study show that increasing the implementation of GCG will be able to influence and increase the company's value significantly and positively, which is mediated by operational efficiency. This means that when the implementation of the company's GCG increases, it will indirectly increase the company's value. Conversely, when the implementation of GCG decreases or deteriorates, it will indirectly reduce the value of the company.

## 4. Conclusion

Based on the results of the research, it can be concluded that the implementation *of Good Corporate Governance* (GCG) which is carried out effectively and disciplined by financial conglomerate companies in the banking sector has a significant impact on increasing company value. GCG not only has a direct impact on the company's value through increasing the trust of shareholders and stakeholders, but also provides a significant indirect influence through increasing operational efficiency. This shows that good governance practices are able to create a more orderly, transparent, and accountable operational environment, which ultimately supports the achievement of the company's strategic goals.

In addition, this study also found that GCG has a significant influence on operational efficiency. The application of governance principles such as transparency, accountability, accountability, independence, and fairness can encourage more optimal management of company resources. Operational efficiency created through good governance mechanisms is an important foundation in improving competitiveness and overall company performance. Thus, this study confirms that operational efficiency plays an important role as a mediating variable in strengthening the relationship between GCG and company value. These findings imply that efforts to increase company value should start from improving internal governance and strengthening organizational culture that prioritizes efficiency and integrity in business operations.


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## Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.



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