

# Do Governance Mechanisms Matter? Evidence from Food and Beverage Sector in Indonesia

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## ABSTRACT

This study investigates the impact of corporate governance mechanisms on financial performance, with a focus on publicly listed food and beverage manufacturing companies in Indonesia during the period 2017–2023. Grounded in Agency Theory, this research examines the influence of four key governance mechanisms: Independent Board of Commissioners (IBC), Audit Committee (AC), Managerial Ownership (MO), and Institutional Ownership (IO) on firm profitability as measured by Return on Assets (ROA). The study used multiple linear regression analysis. The results reveal that IBC, AC, and MO have statistically significant positive effects on ROA, confirming their roles as effective internal governance mechanisms in mitigating agency conflicts and promoting accountability. However, IO does not exhibit a significant relationship with financial performance, indicating that ownership by institutional investors alone may be insufficient to enhance firm value, particularly in emerging market contexts with weak regulatory environments and passive investment behavior. These findings underscore the necessity of context-sensitive governance reforms and suggest that ownership structures must be complemented by active monitoring and stakeholder alignment. Furthermore, the study highlights the limitations of single-theory approaches and advocates for a pluralistic governance framework that integrates multiple perspectives, including stewardship and stakeholder theories. By providing industry-specific insights and empirical evidence from an underexplored emerging economy sector, this study contributes to the evolving discourse on corporate governance effectiveness and offers practical implications for regulators, investors, and corporate leaders.

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## 1. Introduction

Corporate governance strengthens organizational outcomes by aligning interests, guiding strategic actions, and minimizing conflicts across ownership structures (Alshdaifat et al., 2025; Shubita, 2023). It refers to the systems and processes in place to direct and control a company (Kabeyi, 2019). Effective governance is closely tied to transparency and accountability to boost market efficiency and stakeholder trust (Derouez et al., 2025; Fuzi et al., 2024; Sambo et al., 2023). Good

corporate governance practices are crucial for mitigating agency problems and enhancing shareholder wealth (Biase & Onorato, 2021). However, recent financial crises have intensified the debate on whether effective corporate governance truly affects a firm's financial success (N. Ahmad et al., 2023; Jebran & Chen, 2023; Kyere & Ausloos, 2021). The separation of ownership and control in modern corporations gives rise to agency problems, where managers may act in their own self-interest rather than maximizing shareholder value (Al-Faryan, 2024; Klettner, 2021).

Corporate governance is often evaluated through key components such as board structure (Chen, 2024), composition, audit committees (H. H. Ha, 2022), and executive compensation. Board independence enhances oversight, reduces managerial opportunism, and supports transparent decision-making to strengthen overall corporate governance effectiveness (Alves, 2023). Audit committee independence, expertise, and size significantly enhance firm performance by improving financial oversight and strengthening corporate governance effectiveness (Altin, 2024). Executive compensation should align with long-term metrics for sustainable value, contributing to financial stability and profitability. Effective corporate governance fosters investor confidence by reinforcing accountability structures and assuring reliable financial oversight (Hammond et al., 2022).

Food and beverage companies are unique because they are resilient, consistently growing, and contribute significantly to national GDPs (G. N. Ahmad et al., 2022). The food and beverage industry's resilience is multifaceted, stemming from its essential role in meeting basic human needs, its adaptability to changing consumer preferences, and its constant innovations in product development and supply chain management. The food and beverage industry relies on innovation to stay resilient and competitive (Bivona & Cruz, 2021; Suwito & Siskawati, 2022). The business strategies used in the food and beverage industry vary widely, depending on the variation in scale and ownership structure (Supramono et al., 2025). In the food and beverage industry, strong corporate governance that emphasizes accountability toward employee welfare and consumer interests significantly enhances financial performance (Nirino et al., 2019). This reflects the importance of aligning governance practices with stakeholder expectations in an industry that is both publicly visible and consumer-centric.

In addition to resilience, the financial performance of food and beverage firms is often linked to their strategic marketing and operational decisions (Bezares et al., 2021). These companies have leveraged both online and traditional marketing techniques to effectively reach diverse consumer bases. Effective environmental scanning in the food and beverage industry supports organizational resilience and contributes to sustained financial performance (YahiaMarzouk & Jin, 2022). The adaptability of this industry not only enhances sales but also augments brand equity and consumer commitment, factors critical to sustaining profit growth within competitive markets (Utama & Efrina, 2023).

Numerous studies have examined the link between corporate governance and firm performance; however, findings remain inconclusive and often vary across industries, governance structures, and geographic regions. For example, the impact of independent board commissioners and audit committees on financial performance has been shown to be context-dependent, influenced by firm size, industry complexity, and ownership concentration. Furthermore, while managerial ownership is expected to align the interests of management with those of shareholders, the empirical evidence is mixed, with some studies reporting a positive impact, while others suggest negligible or even negative effects. Institutional ownership, on the other hand, is often theorized to serve as an external monitoring mechanism, yet its effect on profitability has not been consistently validated in the literature.

### **Agency Theory**

Agency theory serves as a cornerstone for understanding corporate governance frameworks. It elucidates the dynamics between shareholders (the principals) and executives (the agents), highlighting issues arising from the separation of ownership and control within corporations. The theory posits that effective corporate governance can mitigate these costs by aligning the interests of agents with those of the principals through various governance mechanisms. Corporate governance serves as a crucial mechanism to mitigate agency problems arising from the separation of ownership and control by aligning managerial actions with shareholder interests and reducing

monitoring costs (Ararat et al., 2021). The model is often criticized for its narrow emphasis on owner-manager conflicts and its failure to incorporate ethical and stakeholder concerns (Squires & Elnahla, 2020). To improve corporate governance, firms should adopt performance-sensitive executive compensation frameworks that align managerial incentives with long-term firm success (Elsayed & Elbardan, 2018). Research indicates that strong corporate governance practices enhance firm performance and provide a safeguard against agency conflicts. Governance implementation able to improve firm performance because good corporate governance is not merely about regulatory compliance, but also a crucial strategy for enhancing firm performance and long-term value (Bhatt & Bhatt, 2017). On the other hand, corporate governance cannot be fully understood through a single theoretical lens. Instead, a pluralistic and integrative approach is essential to capture its multifaceted nature, especially in emerging market contexts (Al Mamun et al., 2013).

Given this backdrop, this study seeks to fill a critical gap of the influence of corporate governance to financial performance by focusing on the F&B manufacturing sector in Indonesia. An area that remains underexplored despite its significant economic contribution and governance challenges. Using a robust dataset of IDX-listed F&B firms over the 2017–2023 period, this study investigates the extent to which four corporate governance mechanisms—independent board commissioners, audit committees, managerial ownership, and institutional ownership—affect firm profitability, as measured by Return on Assets (ROA). Accordingly, the research hypotheses proposed are as follows:

## **Hypothesis Development**

### **1. The Independent Board of Commissioners and financial performance**

From the perspective of Agency Theory, the Independent Board of Commissioners (IBC) serves as a crucial governance mechanism designed to mitigate agency conflicts between shareholders and management. When managerial actions deviate from shareholders' best interests, particularly in contexts where ownership and control are separated, independent commissioners provide external oversight that can reduce opportunistic behavior and enhance transparency (Al-Faryan, 2024; Al Mamun et al., 2013). This oversight role becomes especially significant in emerging markets, where weaker institutional frameworks often amplify governance risks (Ararat et al., 2021). Independent commissioners are expected to monitor executive decisions objectively, thereby improving accountability and strategic alignment (N. Ahmad et al., 2023). Empirical studies reveal that a higher proportion of independent board members is positively associated with improved firm performance metrics, such as return on assets (ROA), especially in regulated industries like food and beverage (Biase & Onorato, 2021). Nevertheless, the effectiveness of this governance mechanism may vary depending on the institutional context, board engagement, and quality of disclosure (Alves, 2023; Chen, 2024). Given these considerations, this study proposes the following hypothesis:

H1: The Independent Board of Commissioners affects financial performance.

### **2. The audit committee and financial performance**

Agency Theory highlights the inherent conflict of interest resulting from the separation between ownership and managerial control, where agents may act in ways that diverge from the goals of principals (Al-Faryan, 2024; Al Mamun et al., 2013). The audit committee plays a central role in addressing this conflict by serving as an internal monitoring mechanism that enhances the credibility of financial reporting, ensures regulatory compliance, and oversees managerial conduct. An independent and competent audit committee contributes to improved transparency and reduced information asymmetry by critically evaluating financial statements and overseeing internal control systems (Altin, 2024; H. H. Ha, 2022). Empirical evidence demonstrates a positive association between audit committee effectiveness and firm performance, particularly through improved earnings quality and investor confidence (N. Ahmad et al., 2023; Alves, 2023). The food and beverage industry, which faces high public visibility and strict regulatory demands, particularly benefits from strong audit committee oversight to sustain operational integrity and market competitiveness (G. N. Ahmad et al., 2022). Mixed findings in the literature suggest that the impact of audit committees

on performance may be contingent upon contextual factors such as institutional environment or firm characteristics (Bhatt & Bhatt, 2017). This study therefore proposes the following hypothesis

H2: The Audit Committee affects financial performance.

### **3. Managerial Ownership and financial performance**

Agency theory posits that conflicts often arise when the goals of shareholders (principals) differ from those of managers (agents), especially when managers may pursue personal benefits at the expense of firm value (Al-Faryan, 2024; Al Mamun et al., 2013). One governance mechanism frequently discussed in literature as a means to mitigate agency conflicts is managerial ownership, which refers to the extent to which managers hold equity stakes in the company. When managers also serve as partial owners, they are more likely to align their decisions with shareholders' interests, as their wealth becomes directly tied to the company's financial outcomes (N. Ahmad et al., 2023). This alignment is expected to reduce agency costs, discourage opportunistic behavior, and promote long-term firm value (Alshdaifat et al., 2025). However, the relationship between managerial ownership and firm performance is not always linear or universally positive. Some scholars argue that excessive managerial ownership may lead to managerial entrenchment, where powerful executives become less accountable and may resist disciplinary mechanisms, thus harming performance (Shan, 2019; Shan et al., 2024). Others suggest that the benefits of managerial ownership may be context-dependent, influenced by firm size, institutional environment, and market maturity (G. N. Ahmad et al., 2022; Kyere & Ausloos, 2021). In emerging markets, where investor protection and external monitoring mechanisms are still developing, the role of internal governance—such as ownership by insiders—may be even more critical. Given these mixed findings and contextual considerations, this study proposes to test the following hypothesis:

H3: Managerial Ownership affects financial performance.

### **4. Institutional Ownership and financial performance**

Institutional investors are widely regarded as key actors in corporate governance systems, particularly due to their potential to act as effective monitors of managerial behavior. According to agency theory, institutional investors can reduce agency costs by overseeing managerial decisions, thereby aligning corporate actions with shareholder interests (Al-Faryan, 2024; Al Mamun et al., 2013). Their large shareholdings provide not only the incentive but also the authority to influence strategic decisions and demand accountability. Unlike dispersed individual shareholders, institutional investors typically possess greater access to financial, informational, and human capital, which enhances their monitoring capability and ability to evaluate firm performance objectively (Jha & Tiwari, 2025; Klettner, 2021). In emerging markets, where governance enforcement mechanisms may be weak or inconsistent, the role of institutional ownership becomes even more critical (Ararat et al., 2021). Institutional investors are theorized to strengthen internal control structures, reduce earnings management, and improve operational efficiency, all of which contribute to better financial outcomes (N. Ahmad et al., 2023; Ramalingegowda et al., 2021). However, existing empirical findings are inconclusive. While some studies show a positive relationship between institutional ownership and firm performance, others argue that passive institutional investors may lack the willingness to actively intervene in governance processes, thereby diminishing their potential impact (N. M. Ha & Hiep, 2019; Kirk, 2025). Moreover, institutional investors may have diverse objectives and risk preferences, which may not always align with long-term value creation. For example, short-term focused institutions may exert pressure on firms to deliver quarterly results at the expense of sustainable profitability (Jebran & Chen, 2023). Thus, although institutional ownership is theoretically positioned to enhance financial performance, its real-world effect remains debatable and context-dependent. Based on the theoretical arguments and mixed empirical evidence, this study proposes the following hypothesis:

H4: Institutional Ownership affects financial performance.

## 2. Method

### Population and Sample

This study focuses on all food and beverage (F&B) manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2017 to 2023. The total population includes 32 companies operating within this sector. To ensure the relevance and reliability of the findings, a purposive sampling technique was employed. This method allows for the selection of sample units based on specific criteria aligned with the research objectives. The criteria used in the sample selection process include: (1) companies that were consistently listed on the IDX throughout the seven-year period, (2) companies that did not report financial losses during the observation years, and (3) companies that provided complete and accessible data for all variables under study. Following the application of these criteria, only 11 out of the 32 companies met the eligibility requirements. Specifically, 17 companies were excluded because they were not continuously listed during the observation period, three companies were excluded due to experiencing losses in one or more years, and one company lacked complete financial data necessary for analysis. As a result, the final sample comprises 11 companies, contributing to a total of 77 firm-year observations over the seven-year study period.

The study relies exclusively on secondary data, which were collected from the official website of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)). This publicly available source provides access to audited financial statements, annual reports, and other regulatory filings that are essential for measuring the variables under investigation. The data used are quantitative in nature, consisting of numerical indicators extracted from the companies' financial reports. These indicators include variables related to corporate governance, such as the composition of the board and ownership structure, as well as firm performance metrics like Return on Assets (ROA). By using purposive sampling and longitudinal financial data, this study ensures that the sample reflects companies with stable operational conditions and reliable disclosures. This approach strengthens the validity of the statistical inferences drawn and provides a more accurate representation of the relationship between corporate governance mechanisms and financial performance within the F&B manufacturing sector in Indonesia. The use of consistent criteria also minimizes sampling bias and enhances the generalizability of the findings within similar emerging market contexts.

The following is an operational definition of variables and their measurements:

**Table 1.** Operational Definition and Measurement of Variables

No.	Variable	Definition	Measurement
1.	Independent Board Commissioners (X1)	Board members who maintain objectivity in the company's best interests and are not connected to management, other commissioners, or controlling shareholders	$IBC = \frac{\sum \text{Independent Commissioners}}{\sum \text{Total of Commissioners}} \times 100\%$
2.	Audit Committee (X2)	A cadre of executives appointed by the board of commissioners to supervise the operational activities of the corporation	$AC = \sum \text{Audit Committee}$
3.	Managerial Ownership (X3)	A circumstance in which the manager is a shareholder in the company, or, to put it another way, owns shares of the business	$MO = \frac{\sum \text{Managerial Shares}}{\sum \text{Shares Outstanding}} \times 100\%$
4.	Institutional Ownership (X4)	Company shareholders by the government, financial institutions, incorporated institutions, foreign institutions, trust funds and other institutions	$IO = \frac{\sum \text{Institutional shares}}{\sum \text{Shares Outstanding}} \times 100\%$
5.	Firm Performance (Y)	Company size utilizes assets owned to obtain.	$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$

Source: Data Processed, 2024.

### Data Analysis Method

The documentation approach constitutes the methodological framework for data collection utilized in the present investigation. The technique of utilizing information derived from documents and all accessible data to address problems is referred to as the documentation method. The pertinent data was meticulously scrutinized, and the annual financial statements of manufacturing firms within the food and beverage sub-sector for the period spanning 2017 to 2023 were systematically recorded and analyzed to procure data pertinent to this research. The information was sourced from [www.idx.co.id](http://www.idx.co.id), the official website of the Indonesia Stock Exchange. Multiple Linear Regression Analysis, which has the following equation, was used to test this study:

$$ROA = \alpha + \beta_1 IBC + \beta_2 AC + \beta_3 MO + \beta_4 IO \tag{1}$$

### 3. Result

#### Descriptive Statistical Analysis

A methodological approach in data analysis known as a descriptive statistical test is employed to delineate or quantify the essential characteristics of the dataset within a research investigation. The dataset applied in the research, along with the resultant findings, is articulated in the following manner:

**Table 2. Descriptive Statistic**

Variable	N	Minimum	Maximum	Average	Standard Deviation
ROA	77	0,00	0,53	0,1033	0,09466
IBC	77	0,02	0,75	0,3373	0,13196
AC	77	2,00	3,00	2,8701	0,33836
MO	77	0,00	0,63	0,1229	0,16680
IO	77	0,00	0,94	0,5585	0,26861

Source: Output SPSS ver. 27.

The descriptive statistics presented above summarize the characteristics of the variables used in the multiple regression analysis, which aims to examine the effect of various corporate governance mechanisms on firm financial performance, as measured by Return on Assets (ROA). The dataset comprises 77 firm-year observations from food and beverage (F&B) manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2017–2023.

1. Return on Assets (ROA), which serves as the dependent variable representing financial performance, ranges from a minimum of 0.00 to a maximum of 0.53, with an average of 0.1033 and a standard deviation of 0.09466. This indicates a moderate level of profitability variation among the sampled companies.
2. Independent Board of Commissioners (IBC), one of the independent variables, has values ranging between 0.02 and 0.75, with an average of 0.3373 and a standard deviation of 0.13196. This suggests moderate diversity in the proportion of independent commissioners across the sampled firms.
3. Audit Committee (AC), another governance variable, has a minimum value of 2.00 and a maximum of 3.00. The average is 2.8701 with a relatively low standard deviation of 0.33836, indicating limited variation in audit committee size among the sampled companies.
4. Managerial Ownership (MO) shows a minimum value of 0.00 and a maximum of 0.63. The mean value is 0.1229, and the standard deviation is 0.16680, suggesting that, while some companies exhibit considerable managerial shareholding, the overall average remains low.
5. Institutional Ownership (IO) varies widely from 0.00 to 0.94, with a mean of 0.5585 and a standard deviation of 0.26861. This indicates a high degree of variability in the extent of institutional ownership across the firms in the sample.

The multiple regression analysis includes these four independent variables (IBC, AC, MO, and IO) to assess their collective and individual influence on ROA. The overall model is statistically significant, with an F-statistic of 4.540 and a significance level of 0.007, indicating that the combination of these governance variables can explain a significant portion of the variance in ROA. The adjusted R-squared value of 0.351 reveals that approximately 35.1% of the variability in firm performance is explained by the model. Individually, IBC, AC, and MO show statistically significant positive relationships with ROA, whereas IO does not exhibit a significant effect. These findings suggest that certain governance mechanisms may be more closely associated with financial outcomes than others within the F&B sector.

### Analysis of Multiple Linear Regression Test

The link between the specified variables is examined using regression analysis, which includes the t-test, f-test, and coefficient of determination test. The outcomes are as follows:

**Table 3. Multiple Linear Regression Test**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,026	0,116		2,221	0,001
	IBC	0,015	0,088	0,021	2,171	0,000
	AC	0,029	0,037	0,104	2,796	0,043
	MO	0,052	0,075	0,092	1,964	0,049
	IO	0,010	0,043	0,029	0,238	0,812
F-Statistics				4,540 (0,007)		
Adjusted R-Squared				0,351		

Source: Output SPSS ver. 27.

The regression equation derived from the Multiple Linear Regression Test results is as follows:

$$ROA = 0.026 + 0.015 IBC + 0.029 AC + 0.052 MO + 0.010 IO + e \quad (2)$$

A number of independent factors, including the Independent Board of Commissioners (IBC), Audit Committee (AC), Managerial Ownership (MO), and Institutional Ownership (IO), have an impact on ROA, according to the regression equation. The Board of Independent Commissioners, in particular, has a positive coefficient of 0.015, meaning that a minor increase in the percentage of independent commissioners raises ROA. Additionally, the audit committee's and managerial ownership's coefficients are positive (0.029 and 0.052, respectively), indicating that both tend to boost ROA as the number of audit committee members and managing ownership increases. Despite having no influence, institutional ownership has a positive coefficient of 0.010. When all independent variables are zero, ROA is represented by the constant value of 0.026.

The following is an expression for the t-test results:

1. The Independent Board of Commissioners variable has a t value of 2.171, a regression coefficient of 0.015, and a significance level of zero thousand. This variable significantly improves ROA, with a significance value less than 0.05.
2. The Audit Committee variable has a t of 2.796, a Sig of 0.043, and a positive regression coefficient of 0.029. This demonstrates a noteworthy improvement in ROA.
3. The Managerial Ownership variable significantly improves ROA, as seen by its positive regression coefficient of 0.052, t of 1.964, and Sig. 0.049.
4. The regression coefficient for the Institutional Ownership variable is 0.010, with a t-value of 0.238 and a significance level of 0.8112. This variable has no discernible impact on ROA, as indicated by a significance value higher than 0.05.
5. The F-statistic value of 4.540 with Sig. 0.007 indicates that the overall regression model is significant at the 95% confidence level, which means that all independent variables

simultaneously have a significant effect on ROA. The *Adjusted R-Squared* value of 0.351 indicates that 35.1% of the variation in ROA can be explained by the independent variables in this model, while the rest (64.9%) is influenced by other variables outside this model.

#### **4. Discussion**

##### **Independent Board of Commissioners and financial performance**

This study empirically confirms that the Independent Board of Commissioners (IBC) has a statistically significant positive effect on financial performance, as measured by Return on Assets (ROA). The multiple linear regression analysis shows that the coefficient of the IBC variable is 0.015, with a t-value of 2.171 and a significance level of 0.000, indicating that the hypothesis stating "The Independent Board of Commissioners has a significant effect on financial performance" is accepted. From a theoretical standpoint, this finding aligns with Agency Theory, which posits that the separation of ownership and control in modern corporations leads to potential conflicts of interest between principals (shareholders) and agents (managers). The presence of independent commissioners strengthens corporate oversight by introducing objectivity and external judgment into strategic decision-making processes. Independent commissioners, by virtue of their autonomy from management, are better positioned to protect shareholder interests, monitor executive behavior, and ensure transparency—thereby mitigating agency costs and improving financial performance. The empirical evidence of this study is consistent with prior research. Studies by Kyere & Ausloos (2021) and (Biase & Onorato, 2021) have demonstrated that board independence contributes significantly to improved monitoring, reduced managerial opportunism, and stronger financial controls. Furthermore, Alshdaifat et al. (2025) emphasize that during periods of crisis—such as the COVID-19 pandemic—firms with independent governance structures were better able to sustain performance and investor trust.

In the context of the food and beverage industry, where consumer trust, regulatory compliance, and public reputation are critical, independent commissioners play a strategic role. As highlighted by Ahmad et al. (2022), firms in this sector must make swift, high-stakes decisions under pressure. The presence of an independent board helps ensure that such decisions are guided by accountability and aligned with long-term value creation rather than short-term managerial interests. Although the effect size ( $\beta = 0.015$ ) appears moderate, it is statistically robust and contextually meaningful. It signifies that enhancing the proportion and effectiveness of independent board members is a credible governance strategy to strengthen financial outcomes. However, it is important to note that the Adjusted  $R^2$  of 0.351 suggests that while board independence contributes significantly, financial performance is also shaped by other governance mechanisms and contextual factors beyond the scope of this study.

##### **Audit committee and financial performance**

The empirical results of this study support the hypothesis that the audit committee has a significant and positive effect on financial performance, particularly in terms of Return on Assets (ROA). The statistical analysis reveals a positive coefficient ( $\beta = 0.029$ ) and a p-value below the 0.05 threshold, supporting the acceptance of the hypothesis. This finding is aligned with prior research asserting that audit committees play a crucial governance role in enhancing firm value through oversight and accountability mechanisms (Altin, 2024; Ha, 2022). From the perspective of Agency Theory, the audit committee acts as a monitoring tool to reduce information asymmetry and ensure that management acts in the best interest of shareholders. Effective audit committees—characterized by independence, expertise, and frequency of meetings—can reduce agency costs by overseeing financial reporting processes and internal controls (Al-Faryan, 2024; Elsayed & Elbardan, 2018). This is particularly relevant during times of uncertainty, such as the COVID-19 pandemic, when governance failures can severely undermine performance (Fuzi et al., 2024; Jebran & Chen, 2023).

In the context of emerging markets, including Indonesia's food and beverage sector, audit committees are even more critical due to governance and regulatory challenges. As emphasized by

Bhatt and Bhatt (2017) and Kabeyi (2019), firms in such markets often face weaker investor protection and inconsistent regulatory enforcement. Thus, a strong audit committee not only mitigates internal governance risks but also enhances investor confidence and market credibility (Alshdaifat et al., 2025; Hammond et al., 2022).

Moreover, the broader literature suggests that audit committee effectiveness should not be viewed in isolation. Its impact is maximized when integrated with other governance mechanisms such as independent boards (Kyere & Ausloos, 2021), institutional investor oversight (Klettner, 2021), and performance-aligned executive compensation (Elsayed & Elbardan, 2018). The presence of an active audit committee, therefore, reflects a firm's commitment to transparency, financial discipline, and strategic integrity.

### **Managerial Ownership and financial performance**

The empirical results of this study support the hypothesis that managerial ownership has a significant and positive effect on firm financial performance. This is demonstrated by the regression coefficient of 0.052, a t-value of 1.964, and a significance level below 0.05, confirming the role of managerial shareholding in improving financial performance.

From the perspective of agency theory, this finding can be explained by the alignment of interests between managers (agents) and shareholders (principals). When managers hold an ownership stake in the firm, they are more likely to act in ways that enhance company value, as their personal wealth becomes directly tied to the firm's success (Fuji et al., 2024; Al-Faryan, 2024). This ownership alignment helps reduce agency costs, mitigates opportunistic behaviors, and encourages long-term strategic decision-making (Kabeyi, 2019; Kyere & Ausloos, 2021).

In emerging markets, including Indonesia, ownership structures are often concentrated, and governance frameworks are still evolving. Within this context, managerial ownership becomes a crucial internal mechanism for improving performance (Alshdaifat et al., 2025). It creates stronger personal incentives for executives to optimize resource allocation and implement efficient operational strategies—an effect also observed during crisis conditions, such as the COVID-19 pandemic (Jebran & Chen, 2023). Additionally, Shubita (2023) highlights that intangible asset such as human and structural capital—including the strategic involvement of owner-managers—can significantly influence capital structure and financial outcomes. These findings support the view that managerial ownership not only serves a governance role but also represents a form of intellectual capital that enhances organizational performance.

Nevertheless, while the positive impact of managerial ownership is confirmed in this study, its effectiveness may vary across sectors and ownership thresholds. Excessive ownership concentration could potentially entrench management, reducing the effectiveness of external monitoring mechanisms (Elsayed & Elbardan, 2018). Therefore, future research may explore nonlinear effects of managerial ownership or investigate how it interacts with other governance mechanisms such as board independence or institutional ownership (Bhatt & Bhatt, 2017; Klettner, 2021).

### **Institutional Ownership and financial performance**

This study reveals that institutional ownership does not have a statistically significant effect on financial performance. The regression coefficient for institutional ownership is positive (0.010), yet the t-value (0.238) and significance level ( $p = 0.812$ ) indicate that the relationship is not meaningful. These findings reject the proposed hypothesis that institutional ownership significantly influences financial performance.

This result suggests that although institutional investors are expected to provide effective oversight due to their substantial shareholdings and professional expertise, their presence alone may not guarantee improved managerial accountability or profitability. In emerging markets—such as Indonesia—where institutional investors may focus on short-term returns or passive investment strategies, their governance role can be diluted. As emphasized by Alshdaifat et al. (2025), the

effectiveness of ownership structures depends heavily on the institutional context, legal enforcement, and investor activism. Moreover, Shubita (2023) asserts that internal organizational factors such as human capital and strategic resource allocation often have a more pronounced impact on financial outcomes than external ownership characteristics. In line with this, Fuzi et al. (2024) note that during periods of crisis, such as the COVID-19 pandemic, ownership concentration does not necessarily translate into responsive or value-creating corporate actions.

This inconsistency with agency theory—which posits that institutional owners can act as effective monitors to curb managerial opportunism—may highlight the limitations of applying a single-theory lens to corporate governance. As noted by Al Mamun et al. (2013), complex governance realities in emerging markets call for a multi-theoretical approach, integrating stakeholder, stewardship, and resource dependence perspectives to better capture performance dynamics. The findings are also consistent with empirical evidence from Kyere and Ausloos (2021) and Jebran and Chen (2023), who observed that the governance impact of institutional investors varies significantly across contexts and is often moderated by factors such as investor type, engagement level, and regulatory environment.

## **5. Conclusion**

This study empirically investigates the effect of corporate governance mechanisms on financial performance, in manufacturing companies within the food and beverage sector listed on the Indonesia Stock Exchange (IDX) over the 2017–2023 period. The results of multiple linear regression analysis indicate that independent board commissioners, audit committees, and managerial ownership exert a significant and positive impact on financial performance. In contrast, institutional ownership does not exhibit a statistically significant relationship with firm profitability. These findings highlight the critical importance of internal governance structures in promoting efficiency and effectiveness in strategic decision-making, ultimately enhancing financial performance. In particular, the presence of independent commissioners and a strong audit committee helps mitigate conflicts of interest and improves the quality of oversight, as postulated in Agency Theory. Furthermore, managerial ownership strengthens management's incentive to align decisions with shareholder interests through more accountable resource allocation.

This study centers on a specific and dynamic industrial sector—the food and beverage industry—which has received limited in-depth attention in the context of corporate governance and financial performance. By employing longitudinal data and a rigorous purposive sampling approach, this research contributes to the growing body of literature on corporate governance in emerging markets and provides compelling evidence that internal supervisory structures play a pivotal role in strengthening profitability. The practical implications of these findings emphasize the need to enhance the proportion of independent board members and reinforce the active role of audit committees within increasingly competitive and dynamic business environments. Policymakers and regulatory authorities in Indonesia may leverage these insights to improve governance regulations that promote greater accountability, transparency, and investor confidence.

Future research is encouraged to incorporate external variables—such as market volatility, industry competition pressure, or Environmental, Social, and Governance (ESG) factors—as moderating variables to develop a more comprehensive understanding of governance effectiveness. In addition, a mixed-methods approach could be adopted to explore the qualitative dimensions of governance practices that are not directly captured in formal financial reports, thereby offering a more holistic view of corporate oversight mechanisms in practice. Limitations in this study are that the sample which met the criteria was only 11 food and beverage companies out of a total of 32 companies, so it may not be representative of the entire industry; the X variable used is only a derivative of the GCG variable, so it may not cover all aspects that affect ROA; Researchers have limited resources, so they cannot cover all relevant aspects.

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