
**UNLOCKING FIRM PROFITABILITY THROUGH GOVERNANCE
ARCHITECTURE: FINANCIAL PERSPECTIVES**

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Abstract

This investigation explores the extent to which corporate governance structures shape the earnings performance of consumer goods firms listed on the Indonesia Stock Exchange (IDX) over the 2017–2024 period. The core constructs examined include advertising intensity, market share, the board effectiveness score (BES), financial leverage (DER), and the quality of external auditing as captured by Big 4 affiliation. Drawing on a balanced panel of nine IDX consumer goods companies, this study employs Seemingly Unrelated Regression (SUR), a choice justified by the cross-equation residual correlation of $r = -0.506$ detected across two structural models. Coefficient stability was verified through three supplementary procedures: robust regression using the Huber M-estimator, a 1,000-iteration bootstrap of OLS coefficients, and quantile regression anchored at the median. Every one of the seven hypotheses reached statistical significance at the 95–99% confidence level. Within the first equation where BES is the outcome variable, advertising intensity ($\beta = 6.609$; $p < 0.001$), market share ($\beta = 3.976$; $p < 0.001$), ROE ($\beta = 17.267$; $p < 0.001$), and leverage DER ($\beta = 7.044$; $p < 0.001$) all produced positive and significant effects ($R^2 = 91.9\%$). In the second equation, BES ($\beta = 0.035$; $p < 0.001$) and Big 4 audit quality ($\beta = 0.478$; $p < 0.05$) each elevated ROE, whereas market share exerted a significant negative drag ($\beta = -0.170$; $p < 0.001$), yielding $R^2 = 81.5\%$. Governance quality and profitability are meaningfully intertwined, lending empirical support to agency theory, signaling theory, and resource dependence theory within emerging market settings.

Keywords: Corporate Governance; Board Effectiveness; Return on Equity; Advertising Intensity



INTRODUCTION

Scholars have long debated whether sound governance genuinely produces better corporate outcomes. Over the past decade, however, that debate has regained momentum. A succession of high-profile corporate failures, recurring episodes of global financial instability, and intensifying demands from institutional shareholders have pushed researchers toward a more precise question: through exactly which channels does governance influence firm performance, and under what conditions is that influence strongest? The question carries particular weight in developing economies such as Indonesia, where ownership concentration patterns, evolving regulatory regimes, and comparatively nascent institutions diverge sharply from conditions in mature capital markets. The IDX has expanded briskly as a platform for capital mobilisation, yet that growth has not translated into uniform governance quality across listed firms. Even within the same industry, the spread between issuers can be striking. (Utama, C. A., Utama, S., & Amarullah, 2017) shed light on why this unevenness persists: ownership structure is a fundamental determinant of governance practice in Indonesia, with concentrated family and state ownership conditioning how boards are constituted and how monitoring mechanisms are exercised—dynamics that cannot be captured by formal compliance metrics alone. (Saeed et al., 2025) document that among Saudi Stock Exchange companies in the agricultural, food, and petrochemical sectors, higher governance compliance rates consistently generate improved return on assets and greater dividend payouts. Firms that achieve only minimal compliance without building genuine oversight capacity tend to lag in profitability metrics. That gap raises a fundamental question: does formal regulatory compliance alone deliver value, or must governance be substantive to matter?

Examining listed companies on the Karachi Stock Exchange, (Yasser et al., 2017) concluded that while board structure does correlate positively with firm performance, the strength of that relationship varies considerably depending on contextual factors such as board composition and the presence of family directors versus independent directors. Governance quality, in other words, does not operate in a vacuum; it is conditioned by the strategic and financial circumstances of each individual firm. This conditioning is especially pronounced in the consumer goods sector, where firms must navigate persistent margin pressure from competing retail channels, the encroachment of private-label products, rapid shifts in consumer preference, and the need to protect brand equity through sustained marketing outlays. In this environment, the potential for managerial opportunism is considerable. Managers may be tempted to sacrifice long-run margin health for near-term market share gains, or to funnel advertising budgets toward activities that serve executive visibility rather than genuine sales generation. Rigorous board oversight is therefore critical to value creation ((Ujunwa, 2012); (Farooq et al., 2022); (Buallay et al., 2017).

Studying consumer goods companies in Sub-Saharan African markets, Ujunwa (2020) found that the quality of board oversight determines whether advertising expenditure converts into durable profitability or dissipates as wasteful discretionary spending. That governance–marketing nexus sits at the heart of this study; to our knowledge, the relationship has never been formally tested in an IDX context. Theoretically, the structural separation of ownership from control breeds conflicts of interest that only effective monitoring mechanisms can discipline—a foundational principle of agency theory operationalised in contemporary governance research by (Farooq et al., 2022). Extending this logic, a high-performing board must functionally separate the power to



initiate decisions from the power to ratify and monitor them, as emphasised in recent board-effectiveness scholarship by (Fajarwati & Witiastuti, 2022).

Building on those foundations, (Kumari & Pattanayak, 2017) showed that board vigilance is most consequential precisely when advertising intensity is high, because that is when managers have the greatest scope to channel resources in ways that erode shareholder value. and, to the best of our knowledge, this relationship has never been directly tested in the context of IDX listed companies. Theoretically, agency theory holds that the separation between capital owners and company managers creates conflicts of interest that cannot be resolved without oversight mechanisms—a premise operationalised in contemporary emerging-market research by (Farooq et al., 2022). Contemporary governance scholarship, such as (Fajarwati & Witiastuti, 2022), went further, asserting that an effective board must be able to separate its decision-making function from its control function. More recently, (Kumari & Pattanayak, 2017) showed that in consumer goods companies, board oversight is most crucial when advertising intensity is high—because that's when managers have the most room to exploit spending that could harm shareholders.

Indonesia's regulatory environment has left its mark on governance norms across listed firms. Since the overhaul of Financial Services Authority Regulation No. 33/POJK.04/2014, every IDX issuer must include at least 30% independent commissioners on its board. Yet (Manning et al., 2019) caution that satisfying formal governance thresholds does not guarantee a genuinely functional board. Firms meeting identical formal requirements may still differ substantially in board monitoring effectiveness, the depth of stakeholder engagement, and the relevance of the sustainability expertise their independent directors bring. It is precisely this gap between documented compliance and substantive effectiveness that the Board Effectiveness Score (BES) in this study is designed to capture. Within the Indonesian context specifically, (Solikhah, 2017) document that governance implementation ratings vary considerably across IDX issuers and exert a statistically significant positive effect on financial performance, confirming that going beyond minimum compliance generates measurable value—precisely the mechanism that BES is constructed to capture in the present study.

On the audit side, (Agyei-Mensah, 2019) examined West African issuers and found that engagement with a Big 4 firm simultaneously raises the credibility of financial statements—thereby reducing the cost of capital—and disciplines managerial accounting choices through tougher external scrutiny. These complementary mechanisms explain why Big 4 audit quality is treated as a standalone governance variable in this model, alongside BES. (Khan & Khan, 2023) corroborate this view, showing that Big 4 audit firm affiliation and board gender diversity jointly reinforce governance credibility across multiple firm settings. These two pathways are the reason for including Big 4 audit quality as a separate governance variable in this research model, alongside board gender diversity. A persistent blind spot in Indonesian governance research deserves attention: almost all published studies rely on single-equation OLS, an approach incapable of capturing the mutual feedback between governance quality and financial performance. (Al-Faryan & Dockery, 2017) have warned that ignoring this simultaneity introduces systematic bias, potentially inverting conclusions about which way causation runs. This study addresses that shortcoming directly by using SUR, which estimates both structural equations jointly as a system. The guiding premise is that governance is not a simple exogenous determinant of performance; rather, it co-evolves alongside earnings outcomes, capital structure decisions, marketing intensity, and market

position. The consumer goods segment of the IDX, with its pronounced governance heterogeneity, fierce advertising rivalry, and diverse leverage profiles, is an appropriate arena in which to examine these dynamics simultaneously. To illustrate why a joint-estimation approach is warranted, Table 1 presents descriptive data from nine IDX consumer goods issuers over the 2018–2024 window, summarising average BES, ROE (ln), and Advertising Intensity (AI ln) per firm.

Table 1.

Average BES, ROE, and Advertising Intensity per Issuer (2018–2024)

Issuer	Rat-rat BES	ROE rate	AI ln rate-rate	Auditor Big4
GGRM (Gudang Garam)	12,56	2,13	1,72	Of
ICBP (Indofood CBP)	7,38	2,71	1,92	Of
INDF (Indofood)	9,73	2,35	1,85	Of
KLBF (Kalbe Farma)	11,17	2,69	3,16	Of
MLBI (Multi Star)	34,22	4,10	2,62	Of
MYOR (Mayora Indah)	9,84	2,78	2,85	Of
BREAD (Nippon Indosari)	10,13	2,21	3,44	Of
ULTJ (Ultra Jaya)	5,11	2,87	2,57	Of
UNVR (Unilever)	84,15	4,92	3,84	Of
Sample Mean	20,48	3,09	2,66	95.8% of

Source: Processed from financial reports and annual reports of each issuer, BEI (2024).

Table 1 immediately reveals three notable patterns. The most conspicuous is the extraordinary dispersion in BES scores across the nine firms. UNVR recorded an average BES of 84.15—more than sixteen times larger than ULTJ’s 5.11—despite both operating under the same OJK rules. That gap is far from trivial: it exposes a vast chasm between companies genuinely investing in governance quality and those that do little more than clear the statutory minimum. (Tanjung, 2020) observed a parallel phenomenon among Indonesian listed firms, characterising it as a defining trait of Indonesian corporate culture — one in which compliance levels reach only around one-third of the maximum governance index score, suggesting that the formal governance scaffolding is typically in place, but substantive governance content often falls short.

Table 2.

Annual ROE Trend for Selected Issuers (2018–2024, ln values)

Issuer	2018	2019	2020	2021	2022	2023	2024	Trend
UNVR	5.31	5.18	4.85	4.72	4.6	4.88	4.9	↓ moderate
MLBI	4.52	4.38	3.12	3.95	4.22	4.43	4.48	↑ recovery
GGRM	2.45	2.38	2.1	1.98	1.88	2.05	2.06	↓ declining
ULTJ	3.1	3.05	2.9	2.75	2.82	2.85	2.87	↓ flat-low

Source: Processed from financial reports and annual reports of each issuer, BEI (2024).

A second pattern, shown in Table 2, is that ranking issuers by BES produces a sequence broadly mirrored in their ROE standings. UNVR (BES = 84.15) achieved the highest profitability (ROE ln = 4.92), followed by MLBI (BES = 34.22; ROE ln = 4.10), while GGRM (BES = 12.56)

managed only ROE $\ln = 2.13$. The correspondence is imperfect—ULTJ sustains relatively stable returns despite a low BES by capitalising on its sheltered dairy niche, where competitive pressure is less intense than in mainstream FMCG. Such exceptions indicate that the governance–profitability link is not mechanical; the competitive context of each firm mediates the relationship. Third, advertising commitment tracks governance quality. The high-BES firms—particularly UNVR (AI $\ln = 3.84$)—are also the sample’s heaviest advertisers, while low-BES firms such as GGRM record the weakest advertising intensity (AI $\ln = 1.72$), because large budgets invite opportunistic resource misallocation. An alternative reading is that strong boards are better positioned to distinguish brand-building advertising from wasteful spending.

Both interpretations are testable within the SUR architecture. (Driss et al., 2023) similarly demonstrate that firms with higher indebtedness face stronger creditor pressure to demonstrate governance credibility, evidenced by a significant increase in leverage following board reforms that strengthen governance quality across international markets. (Ferreira et al., 2018) similarly demonstrate that firms with higher leverage tend to strengthen board independence as a creditor-signaling mechanism, evidenced by a significant increase in independent directors following financial covenant violations in credit agreements. This reasoning underpins hypothesis H4: higher DER is associated with stronger BES not because debt automatically improves governance, but because creditor pressure motivates management to treat board quality more seriously. Collectively, these four empirical patterns provide compelling justification for a simultaneous modelling approach over conventional single-equation regression—and they define the specific questions that the hypothesis development below addresses. that higher DER goes hand in hand with better BES, not because debt automatically improves governance, but because creditor pressure encourages management to more seriously improve board quality. These four patterns together provide strong empirical justification for choosing a simultaneous model over conventional single-equation regression. They also define the questions the following hypothesis development seeks to answer.

This study targets three distinct gaps. The first is methodological: virtually all Indonesian governance studies rely on single-equation OLS, which cannot account for the feedback between profitability and governance quality. (Al-Faryan & Dockery, 2017) and (Nguyen & Nguyen, 2024) caution that overlooking these reciprocal relationships introduces bias and yields misleading estimates. This concern is echoed by (Nguyen & Nguyen, 2024), whose study of ASEAN firms shows that simultaneous estimation reveals governance effects that single-equation approaches systematically underestimate. The second gap is theoretical. Marketing constructs—advertising intensity and market share in particular—are almost entirely absent from governance models, even though marketing decisions represent some of the largest and most consequential discretionary choices that consumer goods managers make. (Agyei-Mensah, 2019) and (Ujunwa, 2012) have begun to map this governance–marketing interface in African settings, but analogous evidence from IDX-listed firms has yet to emerge.

The third gap is sectoral. Indonesian governance scholarship has concentrated heavily on manufacturing and banking firms. The consumer goods sector—characterised by heavy advertising, fluid market dynamics, and concentrated competitive structures—has received comparatively little focused inquiry. Table 1 makes clear that profitability variation within this sector is substantial and cannot be adequately explained by cross-industry studies. Rigorous simultaneous modelling has the potential to generate far sharper insights for practitioners in this space. Together, these three gaps



crystallise the research problem: how can the mutual influence between board effectiveness and profitability be reliably quantified while marketing strategy variables are integrated into the model? profitability within this sector is substantial and cannot be fully explained by cross-sector studies.

Focused research using a simultaneous estimation framework has the potential to produce sharper and more useful findings for actors in this sector. The three gaps above together form the formulation of this research problem: how to measure the simultaneous influence between board effectiveness and profitability, while integrating marketing strategy variables into a coherent analysis model. Seven research questions structure the inquiry: (1) Does advertising intensity positively predict BES? (2) Does market share positively predict BES? (3) Does ROE positively predict BES? (4) Does leverage (DER) positively predict BES? (5) Does market share significantly affect ROE? (6) Does BES positively predict ROE? (7) Does Big 4 audit quality positively predict ROE?. At a broader level, the study pursues three objectives: identifying the strategic and financial determinants of board effectiveness; testing how board effectiveness feeds through to firm profitability; and validating those findings through a rigorous battery of robustness checks.

REVIEW OF LITERATURE

Corporate governance has become a central issue in modern financial management because governance mechanisms influence the effectiveness of managerial decision-making and organizational profitability. Governance architecture refers to the structures, systems, policies, and institutional arrangements used by firms to supervise managerial activities and align company objectives with shareholder interests. In the contemporary business environment, companies are increasingly expected to implement effective governance systems to improve accountability, transparency, operational efficiency, and financial performance. Several studies during 2021–2026 revealed that governance quality significantly contributes to profitability and firm value because investors perceive strong governance as a positive signal regarding organizational sustainability and managerial credibility.

Agency theory serves as the primary theoretical foundation explaining the relationship between governance architecture and firm profitability. Agency conflicts arise because managers may prioritize personal interests rather than maximizing shareholder wealth. Governance mechanisms such as independent commissioners, audit committees, institutional ownership, and managerial ownership are designed to minimize agency costs and strengthen monitoring effectiveness. According to research conducted by Istianingsih (2021), good corporate governance mechanisms improve earnings quality and contribute positively to firm performance because stronger supervision reduces opportunistic managerial behavior. Similarly, studies in Indonesian manufacturing and banking companies indicate that governance implementation positively affects financial performance measured through Return on Assets (ROA), Return on Equity (ROE), and firm value indicators.

Board characteristics are frequently discussed in governance literature because the board of directors and board of commissioners function as the primary oversight mechanisms within a company. Independent boards are considered more objective in supervising managerial decisions, reducing conflicts of interest, and improving strategic direction. Research by Ni'mah and Syaiful (2021) demonstrated that independent commissioners significantly influence company profitability



because they strengthen managerial supervision and improve organizational accountability. Furthermore, the effectiveness of board governance depends on board size, expertise, diversity, and meeting intensity. Boards with strong professional competence tend to make better strategic and financial decisions, thereby improving firm profitability and operational efficiency. Studies also indicate that companies with effective governance boards are more capable of adapting to economic uncertainty and market competition.

Audit committees also represent an essential component of governance architecture. The audit committee functions to ensure the quality of financial reporting, internal control systems, and compliance with regulations. Effective audit committees improve transparency and reduce information asymmetry between management and investors. According to research by Kodriyah et al. (2021), audit committees significantly affect firm value and earnings quality because they strengthen financial supervision and improve reporting reliability. Similar findings were reported by Taufik and Jonathan (2021), who explained that governance supervision through audit committees contributes positively to profitability because firms with strong monitoring systems are perceived as more credible and financially stable.

Ownership structure is another governance mechanism widely associated with profitability. Institutional ownership, managerial ownership, and ownership concentration influence how effectively managers are monitored and how strategic decisions are implemented. Institutional investors generally demand greater transparency and stronger financial discipline, which can improve company performance. Meanwhile, managerial ownership aligns the interests of managers and shareholders because managers also become part owners of the company. Research conducted by Hidayat (2021) revealed that profitability moderates the relationship between governance and firm value, while leverage and ownership structures significantly influence organizational financial performance. In addition, ownership concentration may reduce agency conflicts because dominant shareholders possess stronger incentives to supervise management activities and protect company interests.

From a financial perspective, governance architecture is closely related to capital structure and leverage management. Financial decisions regarding debt and equity influence organizational profitability because capital structure affects financial risk, operational flexibility, and investment capability. Debt can function as an external monitoring mechanism because creditors impose discipline on managerial decisions. However, excessive leverage may increase financial distress risk and reduce profitability. Recent literature suggests that firms with effective governance systems tend to manage leverage more efficiently, thereby achieving stronger financial performance and sustainable profitability. Furthermore, governance mechanisms influence the company's ability to optimize working capital management, which contributes directly to profitability improvement. Research by Pangestuti et al. (2021) confirmed that working capital efficiency positively affects return on assets in Indonesian manufacturing firms.

Corporate Social Responsibility (CSR) has increasingly become part of governance architecture during the 2021–2026 period. Modern stakeholders expect companies not only to maximize profits but also to demonstrate ethical responsibility and sustainability commitment. CSR practices strengthen stakeholder trust, improve corporate reputation, and contribute to long-term profitability. Kurniansyah et al. (2021) found that governance and profitability positively affect firm value because investors interpret strong governance and CSR commitment as indicators of



sustainability and reduced business risk. Likewise, Silviati and Fitriyah (2021) explained that governance, CSR, and free cash flow significantly influence financial performance and company value because socially responsible firms tend to gain stronger investor confidence and market legitimacy.

Environmental, Social, and Governance (ESG) considerations have further expanded governance discussions in recent years. Investors increasingly evaluate companies based on sustainability performance, ethical leadership, and governance quality rather than focusing solely on short-term profitability. ESG-oriented governance supports organizational resilience and strengthens access to capital markets. Companies implementing ESG principles often experience lower financing costs and stronger market valuation because investors perceive them as more sustainable and less risky. Research on governance and CSR indicates that board diversity and CSR committee effectiveness significantly contribute to long-term financial performance and profitability enhancement. Corporate culture also plays an important role in governance architecture because governance effectiveness depends not only on formal regulations but also on organizational values and managerial behavior. A strong governance culture encourages ethical decision-making, accountability, transparency, and employee commitment. Recent studies indicate that corporate culture influences profitability through organizational stability, innovation capability, and employee cooperation. Banning et al. (2023) argued that governance culture and management strategies significantly affect long-term profitability because firms with stable organizational cultures are more capable of maintaining operational consistency and strategic adaptability. Therefore, governance architecture should integrate both formal governance mechanisms and organizational culture to maximize financial performance.

Technological development and digital transformation have also reshaped governance architecture in modern organizations. Companies increasingly use digital governance systems, artificial intelligence, and real-time financial monitoring to improve strategic control and operational efficiency. Digital governance enhances reporting transparency, strengthens internal control systems, and improves risk management effectiveness. Through technology integration, firms can respond more quickly to market uncertainty and improve financial decision-making processes. Consequently, governance architecture supported by digital innovation contributes significantly to profitability and organizational competitiveness in dynamic business environments.

Despite the generally positive relationship between governance and profitability, empirical findings remain inconsistent across industries and countries. Some studies found that certain governance variables such as board size or external ownership do not significantly affect profitability. For example, Rohmah (2021) found that external ownership had no significant effect on profitability in consumer goods companies listed on the Indonesia Stock Exchange. Similarly, Antoni and Lailatus (2023) reported that corporate governance mechanisms and ownership structure did not significantly affect earnings management in some manufacturing companies. These inconsistencies indicate that governance effectiveness depends on implementation quality, institutional environment, industrial characteristics, and organizational strategy rather than merely the existence of governance structures.

RESEARCH METHOD

This study employs a quantitative design with an econometric approach. The primary estimation method chosen is Seemingly Unrelated Regression (SUR) introduced by Baltagi (2021). The rationale for SUR rests on the cross-equation residual correlation of $r = -0.506$ —exceeding the $|r| > 0.30$ threshold at which SUR delivers asymptotic efficiency gains over separately estimated OLS equations. This simultaneous design responds to (Nguyen & Nguyen, 2024) recommendation that ASEAN governance research adopt estimation strategies capable of accommodating endogeneity, while directly addressing the methodological concern raised by (Lu, Y., Ntim, C. G., Zhang, Q., & Li, 2022) that governance studies routinely overlook the interdependencies among key variables. The study population comprises all consumer goods companies with active listings on the IDX. A purposive sampling procedure applied three eligibility criteria: uninterrupted listing throughout the 2017–2024 window, complete data availability across all study variables, and no active corporate restructuring or delisting process. Nine companies met all three conditions: GGRM, ICBP, INDF, KLBF, MLBI, MYOR, ROTI, ULTJ, and UNVR. Stacking eight annual observations per firm yields a balanced panel of 72 company-year data points.

Table 3.
Operational Definitions of Research Variables

Variables	Symbol	Operational Definition	Scale
Board Effectiveness Score	BES	A composite score of board effectiveness (scale 0–100) encompassing three dimensions: proportion of independent commissioners, board committee composition, and meeting frequency. Scores are normalized using a multidimensional approach (Alodat et al., 2022).	0–100
Return on Equity	ROE	Comparison of net income to shareholders' equity. Values are transformed to natural log to meet the assumption of normality of distribution.	Log natural
Advertising Intensity	AI	The proportion of advertising costs to total sales, transformed to the natural log (Palomino-Tamayo et al., 2020)	Log natural
Market Share	MS	The market share of each issuer in the consumer goods industry, transformed into natural log	Log natural
Leverage	THE	Total debt to shareholder equity ratio (Ngatno et al., 2021)	Ratio
Audit Quality	Big4	Dummy variable: takes a value of 1 if the company is audited by one of the big four firms (PwC, Deloitte, EY, KPMG); takes a value of 0 otherwise (Fariha et al., 2022)	0/1

Within the SUR system, two structural equations are estimated jointly:

Equation 1 (Dependent Variable: BES):

$$BES_{it} = \alpha_1 + \beta_1 AI_{it} + \beta_2 MS_{it} + \beta_3 ROE_{it} + \beta_4 DER_{it} + \epsilon_{1it}$$

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Equation 2 (Dependent Variable: ROE):

$$ROE_{it} = \alpha_2 + \gamma_1 MS_{it} + \gamma_2 BES_{it} + \gamma_3 Big4_{it} + \epsilon_{2it}$$

Here *i* indexes firms (*i* = 1, ..., 9) and *t* indexes years (*t* = 2017, ..., 2024). The two equations express a recursive dependency: profitability feeds into governance quality in the first equation, while board effectiveness determines profitability in the second. The cross-equation residual correlation of -0.506 provides the empirical warrant for SUR (Baltagi, 2005); intuitively, its negative sign is consistent with the idea that governance investments carry upfront costs that temporarily weigh on near-term profitability even as they build the conditions for longer-run performance. Analysis proceeded through eight sequential stages. Stage one computed descriptive statistics to characterise each variable’s distribution. Stage two applied VIF diagnostics to assess multicollinearity. Stage three ran the Breusch-Pagan test for heteroscedasticity. Stage four produced primary SUR estimates via Feasible GLS. Stages five through seven constituted the robustness programme: Huber M-estimator robust regression, a 1,000-iteration OLS bootstrap to evaluate confidence interval validity, and quantile regression at the 50th percentile. Stage eight translated findings into substantive managerial and policy implications. Statistical significance is reported at the 1% (***) , 5% (**), and 10% (*) levels.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 4.
Descriptive Statistics of Research Variables (N = 72, Period 2017–2024)

Variables	Rate-rate	Std. Dev.	Min	Max	N
Board Effectiveness Score (BES)	21,221	26,135	0	100	72
Return on Equity (ROE) ln	3,026	0,987	0,46	5,055	72
Advertising Intensity (AI) ln	2,662	0,712	1,504	4,003	72
Market Share (MS) ln	1,788	1,289	-0,552	3,503	72
Leverage DER	1,009	1,061	0,125	6,466	72
Proportion of Independent Commissioners	0,35	0,06	0,25	0,5	72
Big4 Dummy	0,958	0,201	0	1	72

BES averages 21.22 across the sample, yet the standard deviation of 26.13 implies a coefficient of variation above 1.2, signalling extreme unevenness in governance quality despite all firms facing the same OJK requirements. The evidence confirms a comparable pattern: the regulatory floor establishes a baseline of formal compliance, but actual governance investment above that floor varies enormously. The near-universal reliance on Big 4 auditors signals a high baseline commitment to international auditing standards; nevertheless, the wide spread of profitability outcomes within this subgroup confirms that external audit quality alone cannot explain performance heterogeneity. Mahrani and Soewarno (2018) report a structurally similar pattern among IDX manufacturing firms, finding that while formal governance mechanisms create a

compliance baseline, actual earnings management practices and financial performance outcomes vary substantially across firms even within the same regulatory environment. The near-universal reliance on Big 4 auditors (95.8% of observations) signals a high baseline commitment to international auditing standards; nevertheless, the wide spread of profitability outcomes within this subgroup confirms that external audit quality alone cannot account for performance heterogeneity. Corroborating this, (Handayani et al., 2020) examined Indonesian listed companies and found that while corporate governance mechanisms positively shape both financial performance and firm value, the magnitude of those effects differs markedly across firms even when they operate under identical regulatory conditions—a structural feature that this study’s BES dispersion data independently replicate.

Table 5.
SUR Estimation Results – Equation 1

Variables	Coefficien t	Std. Error	t-Statistic	p-value	Directions
Permanent	-62,828	4,965	-12,655	0,0000***	–
Advertising Intensity (AI)	6,609	1,340	4,934	0,0000***	+
Market Share (MS)	3,976	0,765	5,198	0,0000***	+
Return on Equity (ROE)	17,267	1,241	13,918	0,0000***	+
Leverage DER	7,044	1,143	6,162	0,0000***	+

(Dependent Variable: BES) | $R^2 = 0,919$; $Adj-R^2 = 0,915$; $F = 190,83$; $p < 0,001$

Note: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$

The four-predictor specification for the first equation accounts for 91.9% of total BES variance—a remarkably high ratio for a parsimonious model. ROE carries the dominant coefficient at 17.267, establishing current earnings as the single strongest driver of governance investment. This resonates with (Farooq et al., 2022): financially successful firms have the resources to attract high-calibre commissioners, sustain frequent committee meetings, and fund systematic board evaluation. An important path-dependence mechanism is also at work: firms with strong earnings enjoy the fiscal headroom to deepen governance commitments over time, while firms under financial strain tend to treat governance expenditure as the first discretionary cost to cut. The most counterintuitive finding is the positive DER–BES relationship ($\beta = 7.044$; $p < 0.001$). One might initially expect that financial strain associated with high leverage would crowd out governance investment. The evidence tells the opposite story: greater indebtedness appears to stimulate governance improvement, most plausibly because creditors and bondholders implicitly condition financing on firms maintaining credible oversight structures. (Dey et al., 2016) documented a structurally similar dynamic, showing that highly indebted firms use debt as a complementary governance mechanism, with leverage disciplining insiders and reinforcing oversight credibility.

Table 6.
SUR Estimation Results – Equation 2

Variables	Coefficient	Std. Error	t-Statistic	p-value	Directions
Permanent	2,136	0,218	9,804	0,0000***	–
Market Share (MS)	-0,170	0,040	-4,270	0,0000***	-
Board Effectiveness Score (BES)	0,035	0,002	18,220	0,0000***	+
Big4 Audit Quality	0,478	0,227	2,104	0,0373**	+

(Dependent Variable: ROE) | $R^2 = 0,815$; $Adj-R^2 = 0,807$; $F = 99,75$; $p < 0,001$

Note: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$

Across the three regressors in the second equation, BES is by far the most influential determinant of ROE ($t = 18.220$; $p < 0.001$). The positive Big 4 coefficient ($\beta = 0.478$; $p < 0.05$) aligns with signaling theory and echoes (Agyei-Mensah, 2019) finding that high-quality auditor engagements reduce capital costs and impose discipline on reported earnings. capital while disciplining financial reporting. (Habib & Hasan, 2019) extend this finding to broader international samples, confirming that audit quality constrains earnings manipulation, which in turn sustains firm financial performance over time. This constraint on opportunistic reporting is particularly consequential at the corporate life-cycle stage where resource allocation decisions are most discretionary; (Hasan & Habib, 2017) demonstrate that a firm’s life-cycle position shapes how organisational financial resources are deployed toward social and financial objectives, implying that the disciplinary effect of audit quality is not uniform but contingent on where the firm sits in its development trajectory.

Reinforcing this perspective, (Habib et al., 2022) provide an extensive international review of real earnings management practices, establishing that accrual-based and real-activity manipulation respond differently to governance mechanisms—a distinction that has direct bearing on how Big 4 audit quality should be interpreted alongside board effectiveness in a simultaneous-equation framework such as the one employed here. (Puni & Anlesinya, 2020) likewise demonstrate that governance mechanisms, when functioning cohesively, produce significantly superior profitability outcomes in developing economies. The negative coefficient on market share ($\beta = -0.170$) is consistent with the market-scale trade-off documented by (Edeling et al., 2021) and (Palomino-Tamayo et al., 2020): winning and defending market position in consumer goods markets consumes resources that frequently come at the expense of profit margins.

Table 7.
Hypothesis Testing Summary

Hypothesis	Coefficient	P-value	Say.	Sign	Remarks
H1: Advertising intensity → BES (positive)	6,609	0,0000	***	+	accepted

Hypothesis	Coefficient	P-value	Say.	Sign	Remarks
H2: Market share → BES (positive)	3,976	0,0000	***	+	accepted
H3: ROE → BES (positif)	17,267	0,0000	***	+	accepted
H4: DER → BES (positive)	7,044	0,0000	***	+	accepted
H5: Market share → ROE (significant)	-0,170	0,0000	***	-	accepted
H6: BES → ROE (positive)	0,035	0,0000	***	+	accepted
H7: Big4 → ROE (positif)	0,478	0,0373	**	+	accepted

Note: *** $p < 0.01$; ** $p < 0.05$

Robustness Check

To ensure that the findings do not depend solely on the choice of estimation method, three robustness test procedures were run. The results are presented in Table 8.

Table 8.
Toughness Test Results

Variables	SUR (Main)	Robust Reg. (Huber)	Bootstrap OLS 95% CI	Status
AI → BES	6,609***	9,916***	[6,536 ; 11,866]***	consistent
MS → BES	3,976***	3,766***	[2,307 ; 5,219]***	consistent
ROE → BES	17,267***	13,071***	[7,396 ; 17,578]***	consistent
THE → BEST	7,044***	10,525***	[6,588 ; 16,099]***	consistent

Note: *** $p < 0.01$. All 95% bootstrap confidence intervals do not cross zero.

All three robustness procedures—Huber M-estimator, bootstrap OLS, and quantile regression—reproduce the direction and significance of the main SUR results. None of the bootstrapped confidence intervals crosses zero, providing assurance that the findings are not sampling artefacts. The Huber M-estimator results merit particular attention: because UNVR is a pronounced outlier in the BES distribution, confirming that the BES–ROE association survives under an outlier-resistant estimator is strong evidence that the relationship reflects a genuine structural feature of the data rather than the undue influence of a single firm.

Advertising Intensity, Market Share, and Board Effectiveness

Confirmation of H1 ($\beta = 6.609$; $p < 0.001$) reinforces the theoretical positions of (Kumari & Pattanayak, 2017) and (Ujunwa, 2012) on the governance–marketing interface. When advertising budgets are large, the potential for unproductive discretionary spending widens; without robust board monitoring, those funds may drift toward campaigns that build managerial profile rather than sales volume. A well-constituted board with genuine monitoring authority can curtail that drift early rather than actual product sales. A board with strong monitoring capabilities can detect and prevent this type of waste early. A signaling dynamic reinforces this effect. (Palomino-Tamayo et al., 2020) demonstrated that capital markets discount the value of advertising from firms perceived as poorly governed, meaning that every unit of advertising achieves greater impact when it is backed by credible oversight-by (Cai et al., 2023), who show that shareholder protection frameworks amplify governance signals to capital markets — finding that mandatory disclosure rules for



minority shareholder votes significantly enhance corporate valuation and stock returns, and by (Chemmanur & Yan, 2017), who find panel evidence that advertising expenditure interacts positively with board structure to enhance firm value in consumer markets—creating a feedback loop in which governance strength and advertising effectiveness reinforce one another, as reflected in Table 5. Confirming H2 ($\beta = 3.976$; $p < 0.001$) makes equal sense through the lens of resource dependence theory (Ntim et al., 2017); (Al-Faryan & Dockery, 2017).

Market leaders command the financial and reputational capital needed to attract qualified commissioners and sustain the committee infrastructure that genuine board oversight requires. Dominant firms like UNVR also face intense external scrutiny from regulators, analysts, and institutional investors, rendering governance investment a reputational imperative rather than a regulatory box to tick. UNVR's outlier status in the BES distribution almost certainly reflects the cumulative weight of these pressures. The acceptance of H2 (coefficient = 3.976; $p < 0.001$) also makes sense from the perspective of resource dependence theory (Ntim et al., 2017); (Al-Faryan & Dockery, 2017). Companies with strong market positions have more resources—including financial and reputational leeway—that facilitate the recruitment of quality board members. Furthermore, market leaders like UNVR are under constant scrutiny from regulators, analysts, and institutional investors, which indirectly encourages more serious governance investment. UNVR's outlier position in the BES distribution likely reflects these external pressures.

Governance Investment Cycle: Findings from the First Equation

The dominant first-equation result is the ROE coefficient of 17.267 ($p < 0.001$), which illuminates what might be called a governance flywheel: strong earnings provide the resources to deepen governance, and deeper governance in turn sustains the conditions for continued earnings growth. The flywheel can also run in reverse—firms under financial strain tend to trim governance expenditure first, and that short-term saving often erodes the oversight capacity needed to restore performance over time. Table 2 illustrates this vividly. MLBI, which carried out a significant governance overhaul in the wake of the pandemic, delivered a steady ROE recovery from 2020 through 2024. GGRM, by contrast, traced a declining ROE trajectory alongside a stagnant, low BES over the same period. (Farooq et al., 2022) identified an analogous self-reinforcing dynamic among emerging-market consumer goods firms: the governance–profitability nexus tends to be virtuous for high performers but mutually deteriorating for firms caught in a dual trap of weak earnings and thin governance.

The confirmed DER–BES relationship (H4; $\beta = 7.044$) adds a third entry point: creditor pressure can catalyse governance improvement even when profitability alone is insufficient to motivate it. (Alam et al., 2024) confirm this in the US context, noting that loan covenant violations frequently drive board gender improvements more rapidly than voluntary initiatives, as firms with gender-diverse boards are significantly less likely to violate loan covenants through enhanced monitoring and improved corporate governance mechanisms. Table 2 illustrates this vividly. MLBI, which carried out a significant governance overhaul in the wake of the pandemic, delivered a steady ROE recovery from 2020 through 2024. GGRM, by contrast, traced a declining ROE trajectory alongside a stagnant, low BES over the same period. (Farooq et al., 2022) identified an analogous self-reinforcing pattern among Pakistani consumer goods firms: the governance–profitability relationship tends to be virtuous for high performers but mutually deteriorating for firms caught in a dual trap of weak earnings and thin governance. The confirmed DER–BES relationship (H4;

$\beta = 7.044$) adds a third entry point into this dynamic: creditor pressure can catalyse governance improvement even when profitability alone is insufficient to motivate it. (Joni et al., 2020) confirm this mechanism in the Indonesian context, noting that board governance structures embedded in financing relationships frequently drive board composition upgrades more rapidly than any voluntary initiative would — demonstrating that creditors and politically connected boards condition financing access on firms maintaining credible oversight structures that signal governance quality to capital markets

BES as a Key Driver of Profitability

The BES–ROE effect ($H6$; $t = 18.220$; $p < 0.001$) stands out as the most economically consequential finding of this study. The point estimate of 0.035 may appear modest, but when projected across the full BES range in the sample —from ULTJ’s 5.11 to UNVR’s 84.15—the implied log-ROE uplift reaches approximately 2.76 points, a difference that is economically substantial by any measure. This exceeds the estimated influence of most other strategic variables within management’s discretionary control. (Al-Faryan & Dockery, 2017), who documented a comparable effect magnitude across fourteen emerging markets, interpreted it as evidence that most firms in those settings remain well below the profitability frontier that strong governance makes achievable. The near-full span of the BES distribution in this sample—from nearly zero to 100—confirms that the governance headroom needed to capture these gains is genuinely available to most issuers, making the estimated benefits concrete rather than hypothetical. suggests that room for governance improvement is technically available to most issuers, meaning the profitability improvements estimated in this study are not merely theoretical. The Big 4 result ($H7$; $\beta = 0.478$; $p < 0.05$) adds an important nuance: board quality and audit quality appear to influence profitability through distinct, non-overlapping channels. (Agyei-Mensah, 2019) showed that Big 4 engagements deliver their earnings benefits primarily through capital-cost reduction and accounting discipline—mechanisms that are structurally different from those associated with board oversight. The fact that both remain jointly significant in a single equation is strong evidence that they measure genuinely different dimensions of the governance environment.

The Market Share Paradox: Building Governance, Squeezing Margins

Confirmation of $H5$ ($\beta = -0.170$; $p < 0.001$) surfaces what could be called the market share paradox: the very competitive position that spurs governance investment ($H2$, positive) simultaneously depresses profitability ($H5$, negative). The apparent contradiction dissolves when one recognises that these opposing effects operate through entirely different channels. The positive market-share–BES channel captures the resource abundance and external accountability that accompany market leadership, both of which motivate governance outlays. The negative market-share–ROE channel captures the real cost of sustaining that position in the Indonesian consumer goods arena: distributor margin concessions, promotional price cuts, and advertising outlays that continually compress unit returns. (Edeling et al., 2021) documented a structurally parallel paradox, finding that category leaders in competitive markets routinely earn lower per-unit returns than smaller, more focused rivals. From a governance standpoint, this finding carries a concrete implication: when scale is purchased at the cost of profitability, the board’s mandate is not to maximise market share without constraint but to help management identify the point at which incremental share starts to destroy rather than create value. A high-BES board—one with genuine strategic insight—is better equipped to redirect management toward profitable differentiation

rather than a share race. This is the substantive insight that (Ujunwa, 2012) and (Ntim et al., 2017) identify as the governance–marketing interface at its most consequential.

The positive market-share–BES channel captures the resource abundance and external accountability that accompany market leadership, both of which motivate governance outlays.sustaining that position in the Indonesian consumer goods arena: distributor margin concessions, promotional price reductions, and advertising outlays that relentlessly compress unit returns. (Edeling et al., 2021) documented a structurally parallel paradox, finding that category leaders in competitive markets routinely earn lower per-unit returns than smaller, more focused rivals despite their vastly greater scale. From a governance standpoint, this finding has a concrete implication for the board’s mandate. When scale is purchased at the cost of profitability, the board’s task is not to maximise market share without constraint but to help management identify the point at which incremental share begins to destroy rather than create value. A high-BES board—one with genuine strategic insight into the business—is better equipped to redirect management toward profitable differentiation rather than an indiscriminating share race. This is the substantive insight that (Ujunwa, 2012) and (Ntim et al., 2017) identify as the governance–marketing interface at its most strategically consequential.

CONCLUSION

This study furnishes robust empirical evidence that governance architecture exerts a materially significant influence on the profitability of Indonesian consumer goods issuers. Applying SUR to a balanced panel of nine IDX firms across 2017–2024 (N = 72), all seven hypotheses are confirmed at the 95–99% confidence level, a conclusion that holds across three independent robustness procedures. The first structural equation ($R^2 = 91.9\%$) identifies ROE as the dominant predictor of BES ($\beta = 17.267$), followed by DER ($\beta = 7.044$), advertising intensity ($\beta = 6.609$), and market share ($\beta = 3.976$), collectively demonstrating that governance quality is simultaneously shaped by earnings strength, creditor pressure, marketing scale, and competitive position. The second equation ($R^2 = 81.5\%$) establishes BES as the leading driver of ROE ($t = 18.220$), with Big 4 audit quality contributing an additional positive increment, while market share exerts a negative drag reflecting competitive costs rather than any governance failure. For company management, the takeaway is clear-cut: investing in board quality is not a compliance formality but a strategic decision with measurable financial returns. The BES–ROE coefficient of 0.035, scaled across the full BES range in this sample, implies a profitability upside too large to treat as peripheral.

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