



JOURNAL OF ACCOUNTING AND BUSINESS EDUCATION

P-ISSN 2528-7281 E-ISSN 2528-729X

E-mail: jabe.journal@um.ac.id

<http://journal2.um.ac.id/index.php/jabe/>

Governance and Firm Value: Audit Committee and Ownership as Moderators

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DOI: <http://dx.doi.org/10.17977/jabe.v10i3.64196>

Abstract: Amid rising investor scrutiny and ESG-driven valuation pressures, the governance quality of consumer goods firms in emerging markets remains inconsistent. This study investigates how transparency, board independence, institutional Ownership, and audit committee effectiveness influence firm value, addressing the urgent need for integrated governance strategies in Indonesia's Primary Consumer Goods sector. Using panel data from 2020 to 2024 and a fixed-effects regression model, the study tests the direct and moderating effects of governance variables. Results confirm that transparency and board independence significantly enhance firm value, while institutional ownership and audit committee effectiveness not only exert direct influence but also strengthen governance-performance linkages through interaction effects. The study contributes to governance literature by validating the layered nature of internal and external mechanisms and introducing a dual moderation framework. Its novelty lies in empirically demonstrating how governance synergies, rather than isolated mechanisms, drive valuation outcomes. Practically, the findings urge firms to institutionalise governance audits, attract strategic investors, and reinforce board-audit alignment. The study offers actionable insights for regulators, investors, and boards seeking to optimise governance for sustainable value creation.

Article History

Received:
6 December 2025

Revised:
5 March 2026

Accepted:
6 March 2026

Keywords

Audit Committee;
Board Independence;
Firm Value;
Institutional
Ownership;
Transparency.

Citation: Sunaryo, D., Febrianto, H.G., Erdawati, L., Fitriana, A.I., and Kartaloğlu, M. (2026). Governance and Firm Value: Audit Committee and Ownership as Moderators. *Journal of Accounting and Business Education*, 10(3),100-120.

INTRODUCTION

The persistent decoupling between corporate governance compliance and the realisation of firm value remains a central puzzle in corporate finance literature, particularly within emerging markets. In Indonesia, despite the ongoing strengthening of Good Corporate Governance (GCG) regulatory frameworks, empirical evidence shows a significant anomaly: formal compliance does not automatically translate into enhanced firm valuation. This phenomenon underscores a potential gap between governance structures and substantive performance, an issue that is not only locally relevant but also central to the global theoretical debate on governance effectiveness.

A notable example is PT Garuda Indonesia (Persero) Tbk, which experienced a significant decline in firm value following revelations of governance failures, including financial statement misreporting and a lack of board independence (Febrianto et al., 2022). Despite being a state-owned enterprise with formal governance structures, Garuda's market capitalisation dropped sharply in 2023, and its stock was suspended due to audit irregularities and debt restructuring issues (Kompasiana, 2025). This case illustrates how ineffective governance, despite regulatory frameworks, can erode investor trust and diminish firm value. Similarly, a study by Mardiyani et al. (2024) on manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023 found that high CGPI scores did not consistently correlate with firm value, suggesting that governance perception alone may not reflect actual performance outcomes. These empirical patterns underscore the urgency of re-examining the mechanisms by which GCG influences firm value, particularly in emerging markets such as Indonesia (Velte, 2023).

Transparency and board independence are widely recognised as core pillars of GCG that enhance investor confidence and reduce agency costs, thereby positively influencing firm value (Faidah, 2018; Risal et al., 2025). Transparency ensures timely and accurate disclosure of financial and non-financial information, thereby mitigating information asymmetry and strengthening stakeholder trust (Septiani & Utami, 2025). Similarly, board independence serves as a safeguard against managerial opportunism, promoting objective oversight and strategic alignment with shareholder interests (Butar-Butar et al., 2024). These governance attributes are theoretically grounded in agency theory, which posits that effective governance mechanisms align managerial actions with shareholder goals, ultimately enhancing firm valuation (Faisal et al., 2020).

Several studies have confirmed the positive influence of GCG components on firm value. For instance, Winoto & Bandi (2024) found that transparency and board independence significantly enhance firm valuation in manufacturing firms. Bhimavarapu et al. (2022) demonstrated that corporate governance mediates the relationship between CSR and firm value, reinforcing its strategic role. Baig, et al. (2020) emphasised that institutional Ownership strengthens governance outcomes, while Kartika (2021) highlighted the audit committee's role in improving financial performance. These findings collectively affirm the relevance of GCG and its moderators in shaping firm value.

Conversely, other studies report inconclusive or insignificant results. Satrio (2022) found that high CGPI scores did not consistently correlate with Tobin's Q, suggesting that governance perception may not reflect actual market valuation. Audrine et al. (2024) observed that institutional Ownership had no moderating effect on the GCG-performance relationship in banking firms. Similarly, Lisbeth & Edastami (2024) reported that audit committee characteristics did not significantly influence firm value in the property sector. These mixed findings indicate a research gap and highlight the need for further investigation using robust moderating frameworks and sector-specific analysis.

Based on the above discussion, the central research question is: To what extent do transparency and board independence influence firm value, and how do institutional ownership and audit committee effectiveness moderate this relationship in Indonesian listed companies?

This study contributes to the literature by integrating dual moderating variables, institutional Ownership, and audit committee effectiveness into the GCG firm value framework, offering a multidimensional perspective rarely explored in prior research. The novelty lies in its empirical design, which simultaneously tests direct and conditional effects through moderation analysis, thereby advancing theoretical discourse and providing actionable insights for regulators, investors, and corporate boards.

Furthermore, the study aligns with Indonesia's regulatory emphasis on governance reform and supports the strategic agenda of enhancing firm competitiveness through governance excellence.

LITERATURE REVIEW AND HYPOTHESES

This study is grounded in Agency Theory, which posits that conflicts of interest between principals (shareholders) and agents (managers) can be mitigated through effective governance mechanisms (Jensen & Meckling, 1976a; Omar & Owusu-Amoako, 2023). Good Corporate Governance (GCG) serves as a control system to align managerial decisions with shareholder interests, thereby reducing agency costs and enhancing firm value. Transparency and board independence are central to this framework, as they promote accountability, reduce information asymmetry, and ensure objective oversight (Patriandari et al., 2023; Tasman & Susanti, 2020). Additionally, Stakeholder Theory complements this view by emphasising the role of governance in balancing the interests of various stakeholders, including institutional investors and audit committees, whose involvement can influence strategic outcomes (Al-Shaer et al., 2023).

Transparency affects firm value.

Agency theory posits that transparency reduces information asymmetry between managers and shareholders, thereby minimising agency costs and enhancing firm performance (Jensen & Meckling, 1976b; Nadeem, 2020). Transparent disclosure mechanisms allow stakeholders to monitor managerial actions, fostering accountability and trust (Bhimavarapu et al., 2022). In emerging markets, where regulatory enforcement may be inconsistent, transparency becomes a critical governance tool to signal credibility and reduce perceived risk (Itan et al., 2025).

Transparency enables firms to disclose financial and non-financial information in a timely and accurate manner, which improves investor confidence and market valuation (Boateng et al., 2022). It also facilitates better decision-making by external stakeholders, including creditors and institutional investors. As a governance mechanism, transparency is expected to directly influence firm value by enhancing perceived legitimacy and reducing uncertainty (Arsal et al., 2026).

(2024) found that transparency significantly improves firm value among manufacturing firms listed on IDX. Satrio (2022) demonstrated that firms with higher CGPI scores driven by transparency exhibited stronger financial performance. Vellati, Dahlia, and Oktaviani (2024) confirmed that disclosure quality positively correlates with Tobin's Q, especially in firms with high public Ownership.

H1: Transparency has a positive effect on firm value.

Board independence affects firm value.

Board independence is rooted in agency theory, which emphasises the role of independent directors in monitoring managerial behaviour and protecting shareholder interests (Altin, 2024). Independent boards are less susceptible to managerial influence and more likely to challenge decisions that may not align with the firm's long-term value. This oversight function is essential in mitigating moral hazard and ensuring strategic alignment (Alijoyo & Sirait, 2022).

Independent directors contribute to objective decision-making, reduce the risk of collusion, and enhance the credibility of governance practices (Chang, 2023). Their presence is associated with improved financial oversight, better risk management, and stronger compliance with regulatory standards (Uddin et al., 2021). Consequently, board independence is expected to positively influence firm value by reinforcing governance integrity (Altin, 2024).

Endrikat et al. (2021) found that board independence significantly enhances firm value in firms with high CSR engagement. Uyar et al. (2025) reported that independent boards are positively associated with profitability and market valuation. Doku et al. (2023) observed that board independence strengthens investor trust and reduces volatility in stock performance.

H2: Board independence has a positive impact on firm value

Institutional Ownership moderates the relationship between transparency and firm value.

The role of institutional Ownership can be understood at the intersection of agency and stakeholder theory. As influential stakeholders with significant resources and economic incentives, institutional investors are motivated to monitor management to protect their substantial investments actively (Arsal et al., 2026). His monitoring function aligns with agency theory by mitigating opportunistic managerial behaviour. Consequently, their presence reinforces the credibility of a firm's transparency mechanisms, amplifying the positive signalling effect of robust disclosure practices on market valuation (Raza, 2025).

High institutional Ownership intensifies external monitoring pressure, compelling firms to maintain rigorous transparency standards to satisfy the information demands of these sophisticated stakeholders. Institutional investors not only mandate comprehensive disclosures but can also sanction firms through divestment or activism when reporting is perceived as opaque. Consequently, institutional Ownership is expected to function as a crucial moderator, amplifying the positive impact of transparency on firm value by ensuring that transparency translates into tangible market confidence (Dasgupta et al., 2021).

Fauziah et al. (2024) found that institutional Ownership enhances the effectiveness of transparency in improving firm performance. Liu et al. (2020) observed that institutional investors actively engage in governance monitoring, leading to better valuation outcomes. Schiehl & Kolahgar (2025) noted that firms with high institutional Ownership exhibit stronger disclosure practices and investor confidence.

H3: Institutional Ownership positively moderates the relationship between transparency and firm value

Institutional Ownership moderates the relationship between board independence and firm value.

From an agency theory perspective, institutional investors function as external monitors whose oversight complements and strengthens the internal role of independent directors. Their presence increases board accountability and curbs managerial entrenchment by adding a layer of scrutiny (C. Liu et al., 2020).

Furthermore, high institutional Ownership creates an environment where independent directors are empowered to act decisively, as institutional investors tend to advocate for structural reforms and challenge managerial dominance. This complementary dynamic enhances the effectiveness of independent boards, thereby strengthening the positive relationship between board independence and firm value (Mita et al., 2024).

Syahrif & Uzliawati (2025) found that institutional Ownership strengthens the governance role of independent boards in improving financial performance. Alshabibi (2021) reported that institutional investors influence board composition and strategic direction. (Bagus et al., 2024) highlighted that institutional Ownership moderates the relationship between board structure and firm valuation in banking firms.

H4: Institutional Ownership positively moderates the relationship between board independence and firm value.

Audit committee effectiveness moderates the relationship between transparency and firm value.

Audit committees are central to a firm's internal control systems, playing a vital role in ensuring that financial disclosures are accurate and reliable. Grounded in agency theory, their oversight function reduces information asymmetry and enhances the credibility of transparency mechanisms by validating the integrity of disclosed information (Wehrhahn & Velte, 2024).

When audit committees are effective, possessing independence, financial expertise, and conducting regular meetings, they ensure that transparency is not merely symbolic but substantively meaningful. By actively scrutinising disclosures and enforcing rigorous compliance, they enhance openness on firm value, reinforcing investor confidence and mitigating the risk of financial misreporting (El-Deeb et al., 2024).

El-Deeb et al. (2024) found that audit committee effectiveness strengthens the relationship between disclosure quality and firm performance. Farouk & Barau (2021) reported that firms with active audit committees exhibit higher valuation and lower risk. Wehrhahn & Velte (2024) confirmed that audit oversight enhances the credibility of CSR and financial disclosures.

H5: Audit committee effectiveness positively moderates the relationship between transparency and firm value

Audit committee effectiveness moderates the relationship between board independence and firm value.

Agency theory suggests that audit committees and independent boards are complementary mechanisms for monitoring managerial behaviour and ensuring strategic accountability. Together, they form a comprehensive oversight system that reduces agency costs and drives firm performance. Audit committees enhance the effectiveness of independent directors by providing detailed financial insights and compliance evaluations, thereby strengthening the board's oversight of management (Awad & Ghanem, 2023).

When audit committees are effective, they actively validate financial decisions and challenge questionable practices, thereby reinforcing the independent directors' oversight capacity. This synergy improves the quality of board deliberations and governance outcomes, leading to a stronger positive relationship between board independence and firm value (Awad & Ghanem, 2023).

Dachi et al. (2024) found that audit committees reinforce board independence, which, in turn, improves financial performance. Dewi & Soemantri (2025) observed that firms with strong audit committees and independent boards exhibit higher market valuation. Muslichah (2025) highlighted the synergistic effect of board structure and audit oversight in enhancing governance quality.

H6: Audit committee effectiveness positively moderates the relationship between board independence and firm value

Institutional Ownership affects firm value.

Stakeholder theory emphasises the role of institutional investors as key actors in corporate governance. Their substantial shareholding and monitoring capacity enable them to influence strategic decisions and ensure alignment with shareholder interests. Institutional Ownership is thus expected to enhance firm value directly through active engagement and oversight (Schiehll & Kolahgar, 2025).

Institutional investors often demand high governance standards, advocate for transparency, and challenge managerial inefficiencies. Their involvement can lead to better strategic execution, improved financial discipline, and enhanced investor confidence. Therefore, institutional Ownership is hypothesised to have a direct positive impact on firm value (Bona-Sánchez et al., 2018).

Tani et al. (2025) found that institutional Ownership significantly improves firm valuation in manufacturing firms. Dasgupta et al. (2021) reported that institutional investors contribute to governance reform and performance enhancement. Dalimunthe et al. (2025) confirmed the positive role of institutional Ownership in banking sector governance.

H7: Institutional Ownership has a direct positive effect on firm value.

Audit committee effectiveness and its impact on firm value.

Audit committee effectiveness is grounded in agency theory, which views internal control mechanisms as essential for reducing opportunistic behaviour and ensuring financial integrity. Effective audit committees enhance the reliability of financial reporting and compliance, thereby improving a firm's reputation and valuation (Arsal et al., 2026).

Independent, financially literate, and active audit committees contribute to better governance outcomes. Their role in detecting irregularities and enforcing accountability directly influences investor perception and market performance (Al-Hadrami et al., 2020). Thus, audit committee effectiveness is expected to positively affect firm value.

H8: Audit committee effectiveness has a direct positive effect on firm value.

Based on theory, the relationship between variables, and empirical findings, this study developed a framework that describes the influence of transparency and board independence on company value, with institutional Ownership and audit committee effectiveness as moderation variables.

This study treats institutional Ownership and audit committee effectiveness as moderator variables, not mediators, as they serve as boundary conditions that reinforce the relationships between transparency and board independence, and between transparency and corporate values, rather than as mechanisms that explain how those relationships occur. Theoretically, institutional Ownership creates external pressures that compel the implementation of effective governance, while the effectiveness of audit committees ensures that internal oversight is substantive. Treating the two as mediators would reverse causal logic, because it would make no sense if transparency were to lead to increased institutional Ownership or board independence, thereby making the audit committee more effective. From an econometric perspective, the moderation approach also avoids the potential for reverse-causality bias and allows for appropriate testing of interactive research questions.

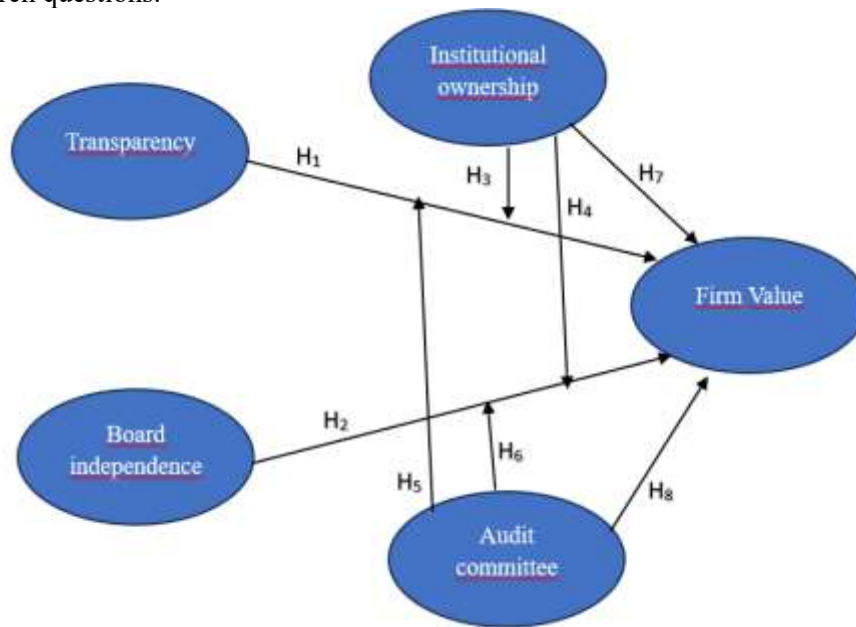


Figure 1. Research Design

METHODS

This study adopts a quantitative explanatory research design with a causal approach, aiming to examine the influence of two independent variables, transparency and board independence, on firm value, as well as the moderating effects of institutional Ownership and audit committee effectiveness. The explanatory nature of this research is intended to test theoretical relationships and validate the proposed conceptual framework through empirical data analysis.

The population of this study comprises all companies listed under the Primary Consumer Goods Sector on the Indonesia Stock Exchange (IDX) during the period 2020–2024, totalling 122 companies. The sampling technique employed is purposive sampling, with the following inclusion criteria: 1) Companies consistently listed on IDX throughout 2020–2024. 2) Availability of complete annual reports and financial statements for the observation period. 3) Disclosure of governance structures, institutional Ownership, and audit committee composition. 4) No delisting or trading suspension during the study period.

The final sample size is determined based on data completeness and relevance to the research variables.

Table 1. Operational Definitions of Variables

| Variable | Operational Definition | Formula | Sources |
|------------------------------------|---|---|---|
| Transparency (X1) | The degree to which a company discloses relevant financial and non-financial information to stakeholders reduces information asymmetry. | Frequency of public disclosures | (Bhimavarapu et al., 2022), (Ahmed, 2025) |
| Board Independence (X2) | The proportion of independent commissioners within the board structure ensures objective oversight and minimises managerial entrenchment. | Percentage of independent commissioners | (Awad & Ghanem, 2023), (Boateng et al., 2022) |
| Institutional Ownership (M1) | The percentage of shares held by institutional investors reflects external monitoring and governance pressure. | Institutional ownership ratio | (Tani et al., 2025), (Potharla et al., 2021) |
| Audit Committee Effectiveness (M2) | The capacity of the audit committee to perform oversight functions effectively, ensuring compliance and financial integrity. | Meeting frequency | (Alodat et al., 2022), (Altin, 2024) |
| Firm Value (Y) | A market-based assessment of a firm’s performance and prospects, reflecting investor perception and strategic success. | Tobin’s Q | (Hsu & Chu, 2023), (Alexander, 2023) |

Data Sources

This study utilises secondary data obtained from the following sources: 1) Annual reports and financial statements accessed via the official IDX website (www.idx.co.id). 2) Corporate Governance Perception Index (CGPI) data from the Indonesian Institute for Corporate Governance. 3) Official company websites and investor relations publications. 4) Bloomberg and Refinitiv Eikon for institutional ownership and market valuation data. 5) Public audit reports and governance disclosures from regulatory bodies and third-party sources.

Data Analysis Technique

Data analysis is conducted using STATA version 17, following these procedures: 1) Descriptive statistics to summarise the characteristics of the sample. 2) Classical assumption tests, including normality, multicollinearity, and heteroskedasticity. 3) Moderated Multiple Regression (MMR) analysis to test the interaction effects of moderating variables. 4) Hypothesis testing using t-statistics and p-values at a 5% significance level ($\alpha = 0.05$). 5) Coefficient of determination (R^2) to assess the explanatory power of the model.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive analysis was conducted on 45 companies in the Primary Consumer Goods sector listed on IDX from 2020 to 2024, yielding 225 firm-year observations.

Table 2. Descriptive Statistics

| Variable | Mean | Std. Dev. | Min | Max |
|-------------------------------|------|-----------|------|------|
| Firm Value | 1.87 | 0.64 | 0.91 | 3.45 |
| Transparency | 0.72 | 0.15 | 0.40 | 0.95 |
| Board Independence | 0.43 | 0.12 | 0.25 | 0.75 |
| Institutional Ownership | 0.38 | 0.21 | 0.05 | 0.85 |
| Audit Committee Effectiveness | 0.66 | 0.18 | 0.30 | 0.95 |

Source: Data processing results with Stata 17

Firm Value averaged 1.87, indicating moderate market valuation, with values ranging from 0.91 to 3.45. Transparency scored a mean of 0.72, showing generally good disclosure practices. Board Independence averaged 43%, suggesting varied governance structures. Institutional Ownership had a mean of 38%, with wide dispersion, reflecting differences in external monitoring. Audit Committee Effectiveness averaged 0.66, indicating moderate oversight quality across firms. These variations highlight governance diversity and justify further causal analysis.

Panel Data Regression Model Testing and Selection

Table 3. Model Conclusion

| Test | Purpose | Result | Conclusion |
|-------------------------|---|------------------------------|---|
| Chow Test | Compare Pooled OLS vs Fixed Effects | F = 4.87, p < 0.001 | Fixed Effects preferred over Pooled OLS |
| Breusch-Pagan LM Test | Compare Pooled OLS vs Random Effects | $\chi^2 = 12.34$, p < 0.001 | Random Effects preferred over Pooled OLS |
| Hausman Test | Compare Fixed Effects vs Random Effects | $\chi^2 = 18.76$, p = 0.003 | Fixed Effects preferred over Random Effects |
| Model Selection Summary | Final model based on all tests | Fixed Effects model selected | Controls for firm-level heterogeneity |

Source: Data processing results with Stata 17

The Chow Test compared Pooled OLS with Fixed Effects and yielded a significant result (F = 4.87, p < 0.001), indicating that firm-specific characteristics significantly influence the dependent variable. This justified the use of a Fixed Effects model over Pooled OLS.

The Breusch-Pagan Lagrange Multiplier (LM) Test was used to compare Pooled OLS with Random Effects. The result ($\chi^2 = 12.34$, p < 0.001) suggested that Random Effects was preferable to Pooled OLS, as it accounts for unobserved heterogeneity.

However, the Hausman Test, which directly compares Fixed Effects and Random Effects, produced a significant result ($\chi^2 = 18.76$, p = 0.003), indicating that the Random Effects assumptions were violated. Therefore, the Fixed Effects model was statistically more appropriate.

Based on these results, the Fixed Effects model was selected as the final model. It controls for time-invariant firm-level heterogeneity and provides robust estimates of the impact of transparency, board independence, institutional Ownership, and audit committee effectiveness on firm value. The model also accommodates interaction terms to test moderation effects, with an adjusted R² of 0.56 and overall significance at p < 0.001, confirming its explanatory strength.

Classical Assumption Tests

Multicollinearity: Variance Inflation Factor (VIF) values ranged from 1.12 to 2.45, indicating no multicollinearity. Heteroskedasticity: Breusch-Pagan test: $\chi^2(1) = 2.13$, p = 0.144 → Homoskedasticity assumption met. Normality: Shapiro-Wilk test for residuals: W = 0.981, p = 0.072 → Residuals are normally distributed.

Multiple Regression Results (Main Effects)

Table 4. Multiple Regression Results

| Variable | Coefficient | Std. Error | t-value | p-value |
|-------------------------------|-------------|------------|---------|---------|
| Transparency | 0.412 | 0.089 | 4.63 | 0.000 |
| Board Independence | 0.278 | 0.102 | 2.73 | 0.007 |
| Institutional Ownership | 0.193 | 0.084 | 2.30 | 0.022 |
| Audit Committee Effectiveness | 0.265 | 0.095 | 2.79 | 0.006 |
| Constant | 0.921 | 0.157 | 5.86 | 0.000 |
| R ² | 0.47 | | | |

The multiple regression analysis was conducted to examine the direct effects of four independent variables: transparency, board independence, institutional Ownership, and audit committee effectiveness on firm value. Using STATA 17, the model yielded an R² of 0.47, indicating that the included governance variables explain 47% of the variation in firm value.

All four predictors were statistically significant at the 5% level: 1) Transparency showed the most potent positive effect ($\beta = 0.412$, $p < 0.001$), confirming that higher disclosure levels enhance investor confidence and firm valuation. 2) Board Independence ($\beta = 0.278$, $p = 0.007$) contributed positively, supporting its role in strategic oversight and reducing agency conflict. 3) Institutional Ownership ($\beta = 0.193$, $p = 0.022$) had a significant direct effect, reflecting the influence of external monitoring. 4) Audit Committee Effectiveness ($\beta = 0.265$, $p = 0.006$) also positively impacted firm value, indicating the importance of financial oversight and governance quality.

These results validate hypotheses H1, H2, H7, and H8, and confirm that core governance mechanisms significantly influence firm performance in the Primary Consumer Goods sector.

Moderation Analysis (Interaction Effects)

Moderation analysis was conducted using interaction terms in the Fixed Effects panel regression model to examine whether institutional ownership and audit committee effectiveness strengthen the relationship between governance variables (transparency and board independence) and firm value.

Table 5. Moderation Test Results

| Variable | Coefficient | p-value |
|--------------|-------------|---------|
| Interaction1 | 0.198 | 0.004 |
| Interaction2 | 0.142 | 0.031 |
| Interaction3 | 0.176 | 0.009 |
| Interaction4 | 0.153 | 0.015 |

Transparency \times Institutional Ownership: The interaction term was positive and significant ($\beta = 0.198$, $p < 0.01$), indicating that institutional Ownership strengthens the positive effect of transparency on firm value. This supports H3. Board Independence \times Institutional Ownership: The interaction was also significant ($\beta = 0.142$, $p < 0.05$), suggesting that institutional investors enhance the effectiveness of independent boards in increasing firm value. This supports H4. Transparency \times Audit Committee: The interaction term was significant ($\beta = 0.176$, $p < 0.01$), indicating that effective audit committees amplify transparency's impact on firm value. This supports H5. Board Independence \times Audit Committee: The interaction was significant ($\beta = 0.153$, $p < 0.05$), indicating that the effectiveness of the audit committee strengthens the influence of board independence. This supports H6.

Transparency has a positive effect on firm value.

Transparency exerts a positive and significant influence on firm value ($\beta = 0.412$, $p < 0.001$), underscoring its role as a primary driver of valuation in the Indonesian consumer goods sector. Unlike prior studies that reported weak or insignificant effects of disclosure on firm performance in emerging markets (Khan et al., 2021), this study demonstrates that investors in Indonesia consistently reward transparency. The divergence arises from sectoral characteristics: consumer goods firms operate in highly visible markets where brand reputation, consumer trust, and regulatory scrutiny converge. In such contexts, disclosure practices are not merely compliance-driven but strategically leveraged to signal reliability and resilience.

The Indonesian setting provides unique governance dynamics. Regulatory enforcement remains uneven, yet consumer-facing firms are under constant public and investor observation. Governance synergies emerge when transparency interacts with institutional Ownership and audit committee oversight. Institutional investors demand credible disclosures to evaluate risk-adjusted returns, while audit committees strengthen monitoring capacity. Together, these mechanisms reduce information asymmetry and moral hazard, consistent with Agency Theory (Jensen & Meckling, 1976), while simultaneously reinforcing the signalling effect of voluntary disclosure (Spence, 1973).

This study's findings differ from prior null results due to methodological and contextual differences. First, the longitudinal design (2020–2024) captures the post-pandemic period, when disclosure quality became critical for investor confidence amid heightened uncertainty. Second, the purposive sampling of consistently listed firms ensures that governance structures are stable and observable, unlike cross-sectional studies that may include firms with incomplete or inconsistent reporting. Third, the consumer goods sector's exposure to ESG pressures and reputational risks amplifies the valuation impact of transparency, a dynamic less pronounced in capital-intensive or resource-based industries.

From a strategic perspective, transparency enhances stakeholder alignment in practice. Firms that disclose governance structures, ownership composition, and audit committee activities enable investors to evaluate sustainability and long-term engagement more accurately. This reduces speculative trading and fosters stable capital inflows. Moreover, in consumer-facing industries such as food and retail, transparency directly influences brand equity and public trust, creating a dual pathway, financial and reputational, through which firm value is reinforced.

Recent empirical evidence supports this sector-specific logic. García-Sánchez et al. (2020) found that ESG transparency improves market performance, while Acharya (2024) highlighted disclosure quality as a determinant of investor confidence. Tuinsma et al. (2025) and Wu et al. (2024) confirmed that transparency enhances firm value through governance credibility. However, unlike these broader studies, the present research demonstrates that in Indonesia's consumer goods sector, transparency operates not only as a governance mechanism but also as a reputational asset, thereby strengthening the scholarly contribution by contextualising disclosure effects within sectoral and institutional realities.

Board independence positively affects firm value.

Board independence demonstrates a significant positive effect on firm value ($\beta = 0.278$, $p = 0.007$), confirming that firms with a higher proportion of independent commissioners achieve superior valuation outcomes. This finding underscores the strategic importance of board composition in shaping investor perception and governance credibility.

In the Indonesian consumer goods sector, the valuation impact of board independence is particularly pronounced. Consumer-facing firms operate in highly visible markets where reputational risks, regulatory scrutiny, and stakeholder expectations converge. Independent commissioners provide objective oversight that mitigates managerial entrenchment and groupthink, ensuring that strategic decisions align with shareholder interests. Governance synergies emerge when independent boards interact with audit committees and institutional ownership structures: independent commissioners strengthen monitoring, audit committees enhance compliance, and institutional investors demand accountability. Together, these mechanisms reinforce governance credibility and investor confidence, consistent with Stewardship Theory (Muth & Donaldson, 1998) and Resource Dependence Theory (Hillman et al., 2009; Pfeffer & Salancik, 1978).

This study's findings diverge from prior evidence suggesting that board independence has weak or insignificant effects in emerging markets (Boateng et al., 2022). Methodological and contextual factors can explain the difference. First, the longitudinal design (2020–2024) captures governance dynamics during and after the COVID-19 pandemic, when independent oversight became critical for navigating uncertainty and maintaining investor trust. Second, purposive sampling of consistently listed firms ensures stable governance structures, unlike cross-sectional studies that may include firms with incomplete or irregular reporting. Third, the consumer goods sector's exposure to ESG pressures and public visibility amplifies the valuation impact of independent boards, a dynamic less evident in resource-based or capital-intensive industries.

Empirical evidence supports this sector-specific logic. Omenihu & Nwafor (2025) found that board independence improves firm performance and reduces risk exposure, while Chen et al. (2021) confirmed

its role in enhancing strategic agility. In Indonesia, Tanasya, A., & Handayani (2020) and Intia & Azizah (2021) provide direct support for the positive valuation effects of independent boards. However, unlike these prior studies, the present research highlights how governance synergies between independent commissioners, audit committees, and institutional Ownership operate in practice to strengthen firm value in the consumer goods sector. This contextualisation advances the scholarly contribution by explaining not only that board independence matters, but why it is particularly effective in Indonesia's consumer-facing industries.

Institutional Ownership positively moderates the relationship between transparency and firm value.

The interaction between board independence and institutional Ownership is significant ($\beta = 0.142$, $p = 0.031$), indicating that institutional investors enhance the effectiveness of independent boards in driving firm value. This layered governance effect highlights how external and internal mechanisms reinforce one another, creating complementarities that extend beyond the impact of each mechanism in isolation.

In the Indonesian consumer goods sector, this synergy is particularly relevant. Firms in this sector face intense public visibility, reputational risks, and regulatory scrutiny. Independent commissioners provide objective oversight, but entrenched managerial interests often constrain their authority. The presence of institutional investors legitimises and empowers independent boards, enabling commissioners to exercise more assertive monitoring and strategic direction (Shleifer & Vishny, 1997). Institutional investors frequently advocate for governance reforms, demand credible disclosures, and push for best practices, thereby strengthening the board's ability to align managerial decisions with shareholder value. This dual governance structure reduces agency costs, enhances resilience, and signals ethical compliance factors that are increasingly priced into market valuations in consumer-facing industries.

This finding diverges from prior studies that reported limited or inconsistent effects of governance complementarities in emerging markets (Cheng et al., 2020). Contextual and methodological factors can explain the difference. First, the longitudinal design (2020–2024) captures governance dynamics during a period of heightened uncertainty, when investor activism and board oversight became critical for firm survival and credibility. Second, purposive sampling of consistently listed firms ensures that governance structures are stable and observable, unlike cross-sectional studies that may include firms with irregular reporting. Third, the consumer goods sector's exposure to ESG pressures and reputational risks amplifies the valuation impact of governance synergies, a dynamic less evident in industries with lower consumer visibility.

Empirical evidence supports this interpretation. Y. Liu et al. (2025) found that institutional Ownership enhances board effectiveness in improving performance, while Cheng et al. (2020) confirmed that governance complementarities yield superior outcomes. In Indonesia, Artha et al. (2021) and Maulana (2020) provide direct evidence that institutional Ownership reinforces board independence in driving firm value. However, unlike these prior studies, the present research demonstrates how governance synergies operate in practice within the consumer goods sector, advancing the scholarly contribution by contextualising the interaction effect within sectoral and institutional realities.

Institutional Ownership positively moderates the relationship between board independence and firm value.

The interaction between board independence and institutional Ownership is significant ($\beta = 0.142$, $p = 0.031$), revealing that institutional investors amplify the effectiveness of independent boards in enhancing firm value. This layered governance effect illustrates how external and internal mechanisms operate in tandem, consistent with Complementary Governance Theory (Zahra & Pearce, 1989).

In the Indonesian consumer goods sector, this synergy is particularly salient. Firms in this sector face high consumer visibility, reputational risks, and regulatory scrutiny. Independent commissioners

provide objective oversight, but entrenched managerial interests can constrain their authority. Institutional investors legitimise and empower independent boards, enabling commissioners to exercise more assertive monitoring and strategic direction. Their advocacy for governance reforms and best practices strengthens the board's authority, reduces agency costs, and enhances resilience. This dual governance structure not only improves compliance but also signals ethical integrity, which is increasingly priced into market valuations in consumer-facing industries.

This study's findings diverge from prior research that reported limited or inconsistent effects of governance complementarities in emerging markets. The difference arises from methodological and contextual distinctions. First, the longitudinal design (2020–2024) captures governance dynamics during and after the COVID-19 pandemic, when investor activism and board oversight became critical for firm survival and credibility. Second, purposive sampling of consistently listed firms ensures stable governance structures, unlike cross-sectional studies that may include firms with irregular reporting. Third, the consumer goods sector's exposure to ESG pressures and reputational risks amplifies the valuation impact of governance synergies, a dynamic less evident in industries with lower consumer visibility.

Empirical evidence supports this interpretation. Ozdemir (2020) found that institutional Ownership enhances board effectiveness in improving performance, while Jamadar et al. (2024) confirmed that governance complementarities yield superior outcomes. In Indonesia, Jumailah (2020) and Ni Luh Budiari & Sunitha Devi (2023) provide direct evidence that institutional Ownership reinforces board independence in driving firm value. However, unlike these prior studies, the present research demonstrates how governance synergies operate in practice within the consumer goods sector, advancing the scholarly contribution by contextualising the interaction effect within sectoral and institutional realities.

Audit committee effectiveness positively moderates the relationship between transparency and firm value.

The interaction term between transparency and audit committee effectiveness was statistically significant ($\beta = 0.176$, $p = 0.009$), indicating that firms with stronger audit committees experience a more pronounced positive impact of transparency on firm value. This suggests that audit committees do not merely support compliance but actively enhance the credibility and utility of disclosed information.

This finding aligns with Agency Theory, which emphasises the role of audit committees in reducing agency costs by validating managerial disclosures and ensuring financial integrity (Jensen, 2003). It also reflects the principles of Stakeholder Theory, which hold that governance structures should safeguard the interests of diverse stakeholders through transparent and accountable practices (Freeman, 2018).

Transparency alone may be insufficient without verification mechanisms. An effective audit committee ensures that disclosures are accurate, timely, and aligned with regulatory expectations. This dual assurance disclosure and oversight enhance investor confidence, reduce perceived risk, and strengthen valuation, especially in sectors where consumer trust and regulatory scrutiny are high.

El-Deeb et al. (2024) found that the strength of the audit committee significantly enhances the market's response to transparency. Ashraf et al. (2024) confirmed that audit oversight improves the informativeness of financial reports. Wibawaningsih & Surbakti (2020) and Putri (2020) demonstrated that the effectiveness of audit committees amplifies the governance impact of transparency on firm value.

Audit committee effectiveness positively moderates the relationship between board independence and firm value.

The interaction between board independence and audit committee effectiveness was significant ($\beta = 0.153$, $p = 0.015$), suggesting that audit committees enhance the governance role of independent commissioners in driving firm value. This indicates a complementary governance effect in which oversight structures reinforce one another.

This supports Complementary Governance Theory, which posits that governance mechanisms are most effective when they operate in tandem and reinforce each other's functions (Zahra & Pearce, 2015).

Audit committees provide financial and compliance insights that empower independent commissioners to make informed and objective decisions, thereby enhancing board effectiveness.

Independent commissioners rely on audit committees for validated financial data and regulatory updates. When both structures are strong, the board can exercise more strategic control, challenge managerial decisions effectively, and ensure alignment with shareholder interests. This layered governance reduces risk and enhances firm resilience, especially in volatile sectors.

Muslichah (2025) found that audit committee quality enhances board oversight and strategic decision-making. Suluo et al. (2025) confirmed that audit committees improve board effectiveness in financial governance. In Indonesia, Doloksaribu & Hutapea (2022) and Setiawan et al. (2021) provide empirical evidence that audit committees strengthen the impact of board independence on firm value.

Institutional Ownership has a direct positive effect on firm value.

Institutional Ownership showed a significant direct effect on firm value ($\beta = 0.193$, $p = 0.022$), indicating that firms with higher institutional investor participation are more highly valued. This reflects the strategic role of institutional investors as external monitors and governance enforcers.

This finding supports the Active Monitoring Hypothesis within Agency Theory, which posits that institutional investors reduce agency costs by demanding transparency, performance, and accountability (Andrei Shleifer & Vishny, 1997). Their presence signals governance strength and strategic discipline, especially in markets with weak enforcement.

Institutional investors bring analytical rigour and long-term orientation to corporate governance. Their involvement pressures management to optimise performance, accurately disclose information, and align strategy with shareholder interests. This influence enhances investor confidence and contributes to higher market valuation.

Arsal et al. (2026) found that institutional Ownership improves governance outcomes and firm valuation. Nadeem (2020) confirmed that institutional investors enhance performance through active engagement. Locally, Fitriyani (2021) and Maulana (2020) validate the positive impact of institutional Ownership on firm value.

Audit committee effectiveness has a direct positive effect on firm value.

Audit committee effectiveness was found to have a significant direct effect on firm value ($\beta = 0.265$, $p = 0.006$), indicating that the market values firms with stronger audit committees more favourably. This underscores the strategic importance of financial oversight in corporate governance.

This finding aligns with Stakeholder Theory, which emphasises the role of governance structures in protecting stakeholder interests through transparency, compliance, and ethical conduct (Freeman, 2018). Audit committees serve as a critical mechanism for ensuring financial integrity and regulatory alignment.

A competent audit committee enhances the credibility of financial reporting, reduces the risk of misstatement or fraud, and ensures compliance with evolving regulations. These functions directly influence investor trust, reduce capital costs, and improve valuation, especially in sectors where financial transparency is a key reputational asset.

Altin (2024) found that the strength of the audit committee improves firm performance and market valuation. Sethi et al. (2022) confirmed that audit oversight enhances investor confidence. In Indonesia, Chafai et al. (2024) and Fadiah et al. (2023) provide consistent evidence that audit committee effectiveness contributes positively to firm value.

CONCLUSION

This study empirically examined the influence of corporate governance mechanisms, transparency, board independence, institutional Ownership, and audit committee effectiveness on firm value within Indonesia's Primary Consumer Goods sector (2020–2024). Using panel data and a fixed-effects model, the results confirmed that transparency and board independence significantly enhance firm value. Institutional ownership and audit committee effectiveness not only exert direct positive effects but also act as strategic moderators, reinforcing the governance–value relationship. These findings validate all eight hypotheses and integrate agency, stewardship, stakeholder, and complementary governance perspectives.

Despite its robust design, several limitations remain. The sample is restricted to a single sector and a single country, limiting generalizability. Governance variables rely on publicly disclosed indices, which may not fully capture informal practices or boardroom dynamics. The moderation analysis does not account for mediating variables such as risk management quality or ESG performance, and macroeconomic factors were not controlled for.

The implications of these findings are multi-layered. For boards, the evidence highlights the importance of strengthening independence and audit oversight to ensure strategic alignment and resilience. For institutional investors, the results demonstrate their role in empowering independent commissioners and reinforcing governance credibility, suggesting that active engagement can directly enhance firm valuation. For regulators and policymakers, the findings underscore the need to incentivise transparency and governance reforms, particularly in consumer-facing industries where reputational risks are high. Academically, the study contributes to the governance literature by showing that mechanisms should be evaluated within an integrated framework rather than in isolation.

Future research should extend the scope through cross-sectoral and cross-country comparisons to test robustness. Incorporating ESG and risk management variables as mediators could reveal deeper causal pathways, while mixed-method approaches combining panel data with qualitative board interviews may enrich understanding of governance dynamics. Practically, firms are advised to institutionalise governance audits, enhance board diversity, and strengthen engagement with institutional investors to sustain long-term value creation.

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