

Corporate Governance and Sustainability Reporting: Implications for Firm Performance

Nuryadi^{1*}, Nurna Aziza²

Universitas Bengkulu, Bengkulu, Indonesia^{1,2}

nuryadi01a@gmail.com^{1*}, nurna_aziza@unib.ac.id²



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Abstract

Purpose: This study aims to examine how corporate governance mechanisms (Board of Directors' expertise and size, and Audit Committee expertise and size) along with sustainability reporting practices, affect the financial performance of food and beverage companies listed on the Indonesia Stock Exchange during 2021–2023.

Methodology/approach: Using purposive sampling, we selected F&B firms that published comprehensive financial and sustainability reports over the three-year period. Secondary data were collected from the Indonesia Stock Exchange website (www.idx.co.id) and analyzed with multiple linear regression in IBM SPSS Statistics 27.

Results/findings: Board expertise showed a significant negative effect on both ROA and ROE, while board size had no significant impact. Audit committee expertise did not influence either performance measure, but audit committee size had a significant positive effect on both ROA and ROE. Sustainability reporting practice was not significantly related to firm performance.

Conclusion: These findings confirm that the effectiveness of governance and sustainability reporting heavily depends on the quality of implementation and regulatory context, not just formal compliance. The implication is that companies need to prioritize the effectiveness and independence of the board, while regulators are encouraged to develop more substantive sustainability disclosure standards.

Limitations: The study is limited to food and beverage companies that publish complete financial and sustainability data, which may restrict the generalizability of the results to other sectors or firms with less transparency.

Contribution: By highlighting the differing impacts of governance characteristics on firm performance, this research informs corporate governance policy and practice in the F&B industry. It offers guidance to regulators, board members, and investors on optimizing board and committee structures to enhance financial performance.

Keywords: *Audit Committee, Board of Directors, ROA, ROE, Sustainability Reporting*

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1. Introduction

Sustainable economics has increasingly dominated global business practices, compelling companies to integrate Environmental, Social, and Governance (ESG) aspects into their strategies rather than focusing solely on short-term profitability (Nopriyanto, 2024). This demand aligns with the Sustainable Development Goals (SDGs) (Yau et al., 2024) and requires two key corporate mechanisms: Corporate Governance (CG) and Sustainability Reporting (SR). CG ensures accountability and transparency,

particularly through the board of commissioners and the audit committee (Aziza & Aviola, 2024). SR functions as a communication tool for ESG performance using the Global Reporting Initiative (GRI) standards (Pratama & Soenaria, 2024; Hongming et al., 2020), both of which have been shown to improve firm performance and reputation (Farooq et al., 2022).

Despite the proven importance of CG and SR, the literature shows contradictory findings that require further exploration. The effectiveness of Corporate Governance appears to be highly context-dependent. For instance, while some studies indicate that CG mechanisms can enhance performance (Farooq et al., 2022), other studies in the Middle Eastern context find that audit committees negatively affect firm performance (Khatib & Nour, 2021; Ali et al., 2022). Similarly, although Sustainability Reporting is often associated with higher firm value, Junius et al. (2020) report no significant relationship, suggesting that the impact of CG and SR on performance is heavily shaped by contextual factors in the markets where companies operate.

These empirical contradictions are particularly relevant in Indonesia, a developing country facing unique governance challenges, including non-standardized regulations and business structures dominated by family ownership (Amin et al., 2024). The urgency of this research emerges from its focus on Indonesia's Food and Beverage (F&B) sector. This industry is a major contributor to the national economy (Lina et al., 2025) with strong GDP contributions (Michael et al., 2025), it is also highly exposed to critical sustainability issues, such as supply chain management and waste, which can significantly affect environmental and social outcomes (Kee et al., 2023). Therefore, a focused study that re-examines and analyzes the specific influence of CG and SR in the Indonesian F&B market is essential to address the literature inconsistencies and provide evidence-based practical guidance.

This study addresses these gaps by offering novelty through a holistic and context-specific approach. First, it assesses the independent effects of CG and SR and examines their interaction in driving sustainable firm performance. Second, it focuses on key mechanisms that remain underexplored in Indonesia, namely, board independence and the quality of GRI-based reporting (Pratama & Soenaria, 2024). By emphasizing variable interactions and the Indonesian F&B industry context, this study aims to resolve contradictions in prior research and provide recommendations for strengthening corporate governance in the transition toward a more sustainable economy.

2. Literature Review and Hypothesis Development

2.1 Literature Review

2.1.1 Agency Theory

In a corporation, resources are entrusted to managers who are not the actual owners of the resources. This creates an uncertain situation because each party has different priorities and continues to pursue them, even at the expense of the other. This leads to the emergence of agency problems within the company (Farooq & Ali, 2020). Jensen and Meckling (1919) describe that in a corporate business structure, agency theory involves a contract in which shareholders hire a manager and grant them decision-making authority under the assumption that the manager acts on behalf of the investors. However, managers also have personal interests and may pursue actions that satisfy their own needs rather than maximizing shareholders' wealth (Eisenhardt, 1989).

This leads to the central premise of agency theory: managers, when performing their roles as agents, may pursue their own objectives or goals that deviate from those of shareholders if not properly monitored. Consequently, corrective actions are required to align these interests through active monitoring mechanisms, such as the board of directors. According to Fama and Jensen (1983), the board of directors is the most effective organizational control mechanism and is responsible for overseeing major organizational decisions. Other CG mechanisms, such as audit committees, strengthen managerial control behavior. The underlying assumption is that once the interests of both parties are aligned, the company will operate more efficiently and effectively (Pinastika and Irawan, 2021).

2.1.2 Legitimacy Theory

Modern businesses operate in rapidly changing global environments. However, these dynamics also bring about certain risks that must be managed to protect stakeholder interests and ensure sustainability for future generations (Mahmood et al., 2019). These challenges cannot be ignored because organizations have social responsibilities to address sustainability and environmental concerns. Public perception and recognition are key factors that motivate companies to disclose information in their financial or sustainability reports (Manan et al., 2025). Hongming et al. (, argue that the purpose of corporate environmental and social reporting is to obtain social acceptance or legitimacy for organizational activities. Legitimacy theory provides an important theoretical perspective on corporate environmental and social disclosure (O'Donovan, 2002).

According to this theory, companies maintain a social contract with society, and their growth and operations are based on objectives that are socially desired. Companies must ensure that their operational activities align with societal expectations, including ethical, legal, and economic boundaries, to enhance their public image. Several recent studies have examined the impact of corporate sustainability reporting on firm performance. Hongming et al. (2020) demonstrate that companies with higher levels of sustainability reporting tend to experience higher stock returns and enjoy competitive advantages compared to firms that do not practice sustainability reporting.

2.2 Hypothesis Development

2.2.1 Corporate Governance and Firm Performance

Corporate governance (CG) plays a crucial role in determining organizational success by facilitating the achievement of social, environmental, and financial goals and supporting business model innovation. Among ESG factors, the social dimension shows the strongest correlation with corporate stock price (Shmelev & Gilardi, 2025). Based on the principles formulated by the Organisation for Economic Co-operation and Development (OECD, 2004), CG is a mechanism designed to establish and achieve organizational objectives through the implementation of policies, rules, and regulations. Overall, CG aims to protect the interests of capital providers, including minority shareholders and all stakeholders, while ensuring that organizational goals are met. Effective implementation of CG also enhances a firm's attractiveness to foreign investors (Bhatt and Bhatt, 2017).

Good governance creates transparent structures and systems, enabling companies to operate efficiently and effectively (Brown & Marsden, 2023). Strong CG ensures that strategic decisions are made with consideration of stakeholders' interests, ultimately having a positive effect on financial and operational performance. Rigorous oversight by governance mechanisms, such as the board of directors and audit committees, can minimize managerial risks, strengthening the firm's competitiveness in global markets. Agency theory highlights the potential conflicts between principals (shareholders) and agents (managers) due to their differing interests. CG mechanisms, such as active monitoring and regulatory enforcement, are designed to reduce these conflicts by aligning managerial and shareholder interests. When CG is effectively implemented, companies can reduce agency costs, enhance decision-making efficiency and improve firm performance. This is supported by previous studies Antwi et al. (2021); Aziza & Aviola (2024); Ciftci et al. (2019); Danoshana et al. (2019); Farooq et al. (2022); dan Kapil & Mishra (2019) yang menemukan adanya hubungan signifikan positif yang diberikan oleh corporate governance terhadap kinerja perusahaan, dengan demikian hipotesis yang dapat dibentuk adalah:

H1: Corporate governance (Board of Directors) has a positive effect on firm performance

H2: Corporate governance (Audit Committee) has a positive effect on firm performance

2.2.2 Sustainability Reporting and Firm Performance

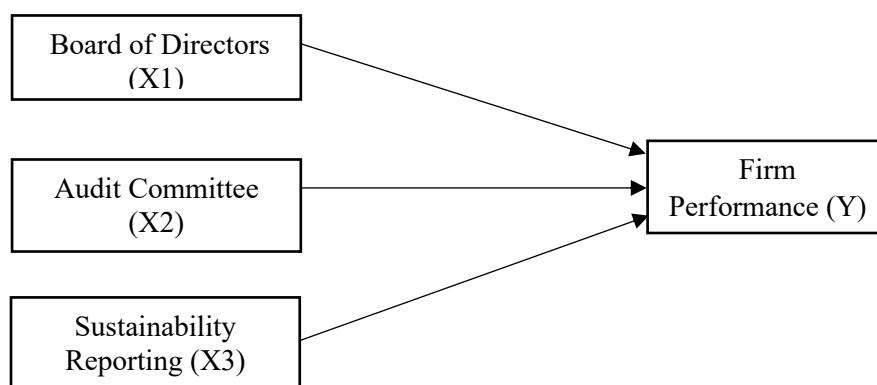
Sustainability Reporting (SR) is the process through which companies integrate and disclose economic, environmental, and social aspects in their official reports to provide a comprehensive overview of their operational impacts. SR encompasses accounting practices related to these impacts, enabling firms to present their performance beyond traditional financial metrics alone. According to Ibáñez-Forés and Guijarro (2023), the GRI (2019) framework is the most widely used standard for communicating organizational information, particularly regarding environmental and social performance, through sustainability reports that include detailed disclosures of economic, social, and environmental impacts. Aifuwa (2020) further explains that SR reflects a company's commitment to social and environmental

issues that are embedded in its operations. The primary objective of Sustainability Reporting is to provide a clear understanding of an organization's economic, social, and environmental impacts, contributing to continuous improvements in sustainable performance and encouraging more responsible business practices (Rusu et al., 2024).

Sustainability reporting is closely linked to firm performance, as transparency in reporting can strengthen stakeholder trust, including investors and consumers, which in turn improves corporate reputation and long-term performance (Imansari et al., 2024). High-quality reporting demonstrates a company's attentiveness to social and environmental risks that may affect operational stability and financial sustainability. Legitimacy Theory explains that SR serves as a tool for companies to obtain and maintain legitimacy by aligning themselves with societal expectations. In addition, Stakeholder Theory emphasizes that the sustainability of firm performance is not solely determined by shareholder satisfaction but also by meeting the social and environmental expectations of communities, regulators, and consumers. Therefore, SR is not only a reporting instrument but also a strategic mechanism for building legitimacy and trust that influence a firm's financial sustainability. By disclosing their social and environmental impacts, companies can strengthen stakeholder support and enhance their reputation, which has the potential to improve their long-term financial and overall performance. Consistent with Hongming et al. (2020), who found a positive influence of sustainability reporting on firm performance, the following hypothesis is proposed:

H3: Sustainability reporting has a positive effect on firm performance

2.3 Conceptual Framework



3. Research Methodology

This study employs a quantitative design using secondary data (archival study) to empirically examine the effects of Corporate Governance (CG) and Sustainability Reporting (SR) on firm performance. The population consists of all Food and Beverage (F&B) sector companies listed on the Indonesia Stock Exchange (IDX). The F&B sector was selected because it is a significant contributor to Indonesia's Gross Domestic Product (GDP) while facing high sustainability pressures, such as waste issues, supply chain challenges, and food waste, making the findings highly contextually relevant. The research period of 2021–2023 was chosen to capture post-pandemic conditions and reflect the growing awareness and regulatory development of ESG at both the global and national levels, thereby ensuring that the data represent actual governance and sustainability reporting practices. The sampling technique used was purposive sampling based on the criterion of complete report publication on the official IDX website (www.idx.co.id). Data were collected by downloading annual financial and sustainability reports from the IDX portal. Data analysis was conducted using multiple linear regression to test the simultaneous relationship between one dependent variable and several independent variables. The analysis was performed using IBM SPSS Statistics 27 to test the classical assumptions (normality, heteroscedasticity, and multicollinearity) and the significance of the regression coefficients.

The multiple linear regression models used in this study were as follows:

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

$$Y_2 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Description:

Y_1	= Firm Performance (ROA)
Y_2	= Firm Performance (ROE)
α	= Constant
$\beta_1, \beta_2, \beta_3, \dots$	= Regression Coefficients
X_1	= Board of Directors Expertise
X_2	= Board of Directors Size
X_3	= Audit Committee Expertise
X_4	= Audit Committee Size
X_5	= Sustainability Reporting
ϵ	= Error Term

Table 1. Operational Definition of Variables

Variable	Operational Definition	Measurement	Source
Corporate governance	Board of Directors a. <i>Expertise diversity</i> : Skills and qualifications of board members related to industry or finance. b. <i>Board size</i> : Total number of members on the board of directors	Board of Directors a. <i>Expertise diversity</i> : Percentage of board members with financial expertise divided by the total number of board members. b. <i>Board size</i> : Total number of board members.	Rosadi and Dillak (2023)
	Audit Committee a. <i>Expertise diversity</i> : Proportion of audit committee members with financial expertise. b. <i>Committee size</i> : Total number of members in the audit committee.	Audit Committee a. <i>Expertise diversity</i> : Percentage of audit committee members with financial expertise divided by the total number of audit committee members. b. <i>Committee size</i> : Total number of audit committee members.	Al-Matari (2022)
Sustainability reporting	A sustainability report that systematically discloses the company's economic, environmental, and social performance based on GRI standards	SR = Number of items disclosed / Total disclosure items	Setiawan, Yuliansyah, and Gamayuni (2022)
Firm Performance	a. ROA: The company's ability to generate profit using its total assets. b. ROE: A ratio comparing net income to shareholders' equity.	a. ROA = Net Income / Total Assets × 100% b. ROE = Net Income / Shareholders' Equity × 100%	Aziza and Aviola (2024); Rahayu and Sucipto (2024); Lestari, Patria, and Saputra (2025)

4. Results and Discussion

4.1 Research Results

4.1.1 Descriptive Statistics

Table 2. Descriptive Statistics

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
MB_EXP	75	0,00	1,00	0,64	0,25
MB_Size	75	1,00	11,00	4,78	2,41
AC_EXP	75	0,00	1,00	0,85	0,21
AC_Size	75	1,00	3,00	2,89	0,42
SR	75	0,02	0,51	0,23	0,11
ROA	75	-39,97	111,59	7,24	15,70
ROE	75	-166,64	256,64	9,23	41,50
Valid N (listwise)	75				

Source: SPSS 27, 2025

Based on 75 observations, the variable MB_EXP (board of directors' expertise) has a minimum value of 0.00 and a maximum value of 1.00, with a mean of 0.64 and a standard deviation of 0.25. This indicates that, on average, 64% of board members possess relevant expertise, with relatively low variations across firms. The size of the board (MB_Size) ranges from 1 to 11 members, with an average of 4.78 members per company and a standard deviation of 2.41 members. This shows considerable diversity in the board composition among the sampled firms. For audit committees, AC_EXP (audit committee expertise) shows a minimum value of 0.00 and a maximum value of 1.00, with a mean of 0.85 and standard deviation of 0.21. This suggests that, on average, 85% of audit committee members possess relevant expertise, reflecting relatively stable experience levels within audit committees. The size of the audit committee (AC_Size) varies from one to three members, with an average size of 2.89 and a standard deviation of 0.42, indicating that most companies have three audit committee members with minimal variation.

The variable SR (sustainability reporting level) has a minimum score of 0.02 and a maximum of 0.51, with an average of 0.23 and a standard deviation of 0.11, respectively. This reveals that the average sustainability reporting score is 23% of the total possible disclosure items, with a relatively narrow dispersion across firms. Financial performance, measured by Return on Assets (ROA), shows an average of 7.24%, with a standard deviation of 15.70 and a wide range (−39.97 to 111.59), indicating substantial differences in asset performance among firms. Similarly, ROE (Return on Equity) has an average of 9.23% with a very large standard deviation of 41.50 and a range of −166.64 to 256.64, signaling very high volatility in equity returns across the sampled companies.

4.1.2 Classical Assumption Testing

4.1.2.1 Normality Test

The normality test assesses whether the residuals in the regression model follow a normal distribution. In this study, normality was tested using the non-parametric Kolmogorov–Smirnov (K–S) method, with the criterion that the data are considered normally distributed if the significance value exceeds 5% ($p > 0.05$) (Ghozali 2006).

Table 3. Normality Test Results

	Unstandardized Residual (Model Y1)	Unstandardized Residual (Model Y2)
Sample Size (n)	69	66
Mean	0,0000000	0,0000000
Std. Deviation	5,53251667	6,42802763
Absolute	0,075	0,067
Positive	0,040	0,034
Negative	-0,075	-0,067

<i>Asymp. Sig. (2-tailed)</i>	0,200 ^d	0,200 ^d
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Source: SPSS 27, 2025

Initially, the residual data were not normally distributed; therefore, outliers were removed. After outlier removal, the normality test results showed significance values greater than 5% (p-value > 0.05), indicating that the residuals for both the models were normally distributed.

4.1.2.2 Multicollinearity Test

The multicollinearity test examines whether correlations exist among the independent variables in the regression model. This study detected potential multicollinearity using the Tolerance and Variance Inflation Factor (VIF) values. The test results are presented below.

Table 4. Multicollinearity Test Results

	Model Y1 (ROA)		Model Y2 (ROE)	
	Tolerance	VIF	Tolerance	VIF
MB_EXP	0,634	1,576	0,617	1,621
MB_SIZE	0,726	1,377	0,724	1,381
AC_EXP	0,680	1,470	0,658	1,521
AC_SIZE	0,452	2,210	0,445	2,248
Sustainabilty Reporting	0,696	1,438	0,707	1,414

Source: SPSS 27, 2025

Based on the multicollinearity results, all independent variables had tolerance values greater than the threshold of 0.1 and VIF values well below the critical limit of 10. Thus, it can be concluded that there is no multicollinearity problem among the independent variables in this regression model.

4.1.2.3 Autocorrelation Test

The autocorrelation test aims to determine whether the residuals in the multiple linear regression model are correlated across the observations. One of the most widely used methods is the Durbin–Watson (DW) test, which produces a statistic ranging from zero to four. A regression model is considered free from autocorrelation if the value satisfies the condition $DU < DW < 4 - DU$.

Table 5. Autocorrelation Test Results

	Model Y1	Model Y2
Durbin Watson	1,962	1,971

Source: SPSS 27, 2025

In this study, the Durbin lower bound value is $DU = 1.704$ and the upper bound value is $4 - DU = 2.296$. Because both DW values (1.962 and 1.971) fall between DU and $4 - DU$, the results indicate that the data pass the autocorrelation test, meaning that the regression models do not exhibit autocorrelation.

4.1.2.4 Heteroscedasticity Test

The heteroscedasticity test examines whether the variance of the residuals in the regression model differs across observations. In this study, heteroscedasticity was detected using the Glejser Test, and a summary of the results is presented below.

Table 6. Heteroscedasticity Test Results

Variable	Model Y1		Model Y2		Description
	t	Sig	t	Sig	
MB_EXP	0,558	0,579	0,575	0,567	Free from heteroscedasticity
MB_SIZE	-0,040	0,969	-1,678	0,099	Free from heteroscedasticity
AC_EXP	0,644	0,522	1,382	0,172	Free from heteroscedasticity
AC_SIZE	-0,511	0,611	-0,719	0,475	Free from heteroscedasticity

<i>Sustainability Reporting</i>	0,107	0,915	0,688	0,494	Free from heteroscedasticity
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Source: SPSS 27, 2025

The table above shows that the significance values for all the research variables are greater than 0.05 (sig. > 0.05). This indicates that the variance of the residuals is constant across the range of the dependent variables, meaning that the regression models are free from heteroscedasticity problems.

4.1.3 Hypothesis Testing – Multiple Linear Regression Analysis

4.1.3.1 Regression Model Y1

Table 7. Regression Results for Model Y1

Dependent Variable: <i>Return on Assets</i>	Coefficient	t	Sig.	Result
MB_EXP	-97,076	-7,955	0,000	Rejected
MB_SIZE	-4,938	-0,886	0,379	Rejected
AC_EXP	-11,012	-1,264	0,211	Rejected
AC_SIZE	43,459	6,605	0,000	Accepted
<i>Sustainability Reporting</i>	-7,997	-0,323	0,748	Rejected
R Square	0,951			
Adjusted R ²	0,947			
F	239,963			
Sig.	0,000 ^b			

Source: SPSS 27, 2025

The regression model shows an adjusted R² value of 0.947, meaning that 94.7% of the variation in Return on Assets (ROA) in the sample can be explained by the five independent variables: Board Expertise (MB_EXP), Board Size (MB_SIZE), Audit Committee Expertise (AC_EXP), Audit Committee Size (AC_SIZE), and Sustainability Reporting. The F-test produces F = 239.963 with p = 0.000, indicating that the regression model is significant at $\alpha = 0.05$, and the independent variables jointly explain the variation in ROA. Individually, only two variables have a significant effect on ROA: Board Expertise (MB_EXP) has a coefficient of $\beta = -97.076$ ($t = -7.955$; $p = 0.000$), indicating that an increase in the proportion of directors with expertise significantly decreases ROA; thus, the hypothesis is accepted. Audit Committee Size (AC_SIZE) is also significantly positive, with $\beta = 43.459$ ($t = 6.605$; $p = 0.000$), meaning that each additional audit committee member significantly increases ROA; the hypothesis is accepted. Meanwhile, Board Size ($\beta = -4.938$; $p = 0.379$), Audit Committee Expertise ($\beta = -11.012$; $p = 0.211$), and Sustainability Reporting ($\beta = -7.997$; $p = 0.748$) are not significant, indicating that there is no statistical evidence that these three variables affect ROA

4.1.3.2 Regression Model Y2

Table 8. Regression Results for Model Y2

Dependent Variable: <i>Return on Equity</i>	Coefficient	t	Sig.	Result
MB_EXP	-12,152	-2,883	0,005	Rejected
MB_SIZE	0,382	0,880	0,383	Rejected
AC_EXP	5,605	1,258	0,213	Rejected
AC_SIZE	6,835	2,586	0,012	Accepted
<i>Sustainability Reporting</i>	9,161	1,065	0,291	Rejected
R Square	0,306			
Adjusted R ²	0,247			
F	5,192			
Sig.	0,001 ^b			

Source: SPSS 27, 2025

The regression model shows that the five independent variables—Board Expertise (MB_EXP), Board Size (MB_SIZE), Audit Committee Expertise (AC_EXP), Audit Committee Size (AC_SIZE), and Sustainability Reporting—jointly explain 30.6% of the variation in Return on Equity (ROE) in the

sample ($R^2 = 0.306$). After adjusting for the number of predictors and sample size, the adjusted R^2 was 0.247, indicating that the actual explanatory power of the model was approximately 24.7%. The F-test produces $F = 5.192$ with $p = 0.001$, meaning that the regression model is significant at $\alpha = 0.05$ and that the independent variables collectively contribute significantly to explaining the ROE. Individually, Board Expertise (MB_EXP) has a significant negative effect on ROE ($\beta = -12.152$; $t = -2.883$; $p = 0.005$), indicating that an increase in the proportion of directors with expertise significantly decreases ROE; thus, the hypothesis is accepted. Audit Committee Size (AC_SIZE) also has a significant positive effect ($\beta = 6.835$; $t = 2.586$; $p = 0.012$), meaning that each additional audit committee member increases ROE by an average of 6.835 units; the hypothesis is accepted. Meanwhile, Board Size ($\beta = 0.382$; $p = 0.383$), Audit Committee Expertise ($\beta = 5.605$; $p = 0.213$), and Sustainability Reporting ($\beta = 9.161$; $p = 0.291$) are not significant, indicating that these three variables do not have a statistical effect on ROE.

4.2 Discussion

4.2.1 Corporate Governance (Board of Directors) and Firm Performance

The findings of this study reveal that Board Expertise (MB_EXP) has a significant negative effect on both Return on Assets (ROA) and Return on Equity (ROE). This indicates that a higher proportion of directors with specific expertise reduces asset profitability and equity returns. This result can be interpreted through the lens of agency theory, which suggests that greater board expertise does not always align the interests of the agent and principal. Instead, it may introduce new agency conflicts in the form of over-monitoring or dual-role burdens, which can reduce the managerial strategic focus (Eisenhardt, 1989). This finding is consistent with Boadi et al. (2023), whose threshold regression and artificial neural network analysis demonstrated that board expertise tends to worsen ROA fluctuations among firms with low asset performance, indicating negative effects within certain groups. Similarly, Kakanda et al. (2017) found a negative correlation between board expertise and ROA, suggesting that directors with multiple board memberships may struggle to effectively carry out their responsibilities due to an excessive workload. Consequently, their contributions become less effective as they cannot fully concentrate on achieving the objectives of each board on which they serve. Practically, this implies that firms should be cautious when appointing board members. While diverse expertise is beneficial, it must be accompanied by clear limits on multiple directorships and workload distribution to ensure that such expertise can be fully optimized for performance enhancement, rather than fulfilling symbolic legitimacy.

Furthermore, the study finds that MB_Size does not significantly affect either ROA or ROE, leading to the rejection of the corresponding hypothesis. From an agency theory perspective, this suggests that a larger board size does not automatically strengthen the monitoring of management. Larger boards may face free-rider problems and coordination inefficiencies, thereby reducing oversight effectiveness (Jensen & Meckling, 2019). These results align with those of Juanda and Jalaluddin (2021), who found board size to be insignificant in explaining ROA and ROE among Indonesian manufacturing firms from 2020 to 2022 ($p > 0.05$). Similar conclusions were reported by Ameliana et al. (2024); Meilani et al. (2023); and Yuliyanto (2023) all of whom demonstrate between board size and size measuring measured through ROA and ROE. These studies collectively emphasize that increasing the number of board members does not necessarily improve the financial performance. Although the board is responsible for strategic planning and oversight, financial metrics such as ROE and ROA are not directly determined by the board size. Shahid et al. (2020) also confirmed that board size does not predict ROA or ROE, highlighting that better financial outcomes do not inherently follow from having a larger board. The practical implication is that firms should prioritize quality, independence, and communication effectiveness among board members, rather than merely increasing the number of directors. A smaller but more competent and well-coordinated board may deliver better governance outcomes and ultimately support stronger firm performance.

4.2.2 Corporate Governance (Audit Committee) and Firm Performance

This study finds that Audit Committee expertise does not influence ROA or ROE. According to agency theory, this result indicates that the presence of financial experts within the audit committee does not automatically reduce information asymmetry or enhance monitoring effectiveness, as their role tends to be more compliance-oriented than value-enhancing (Eisenhardt, 1989). This finding is consistent

with Oroud (2019), who reported that despite expectations that audit committees improve reporting quality, financial expertise does not significantly affect ROE, suggesting that simply appointing financial experts is insufficient. Ashari and Krismiaji (2020) also observed that Audit Committee expertise does not significantly influence ROE among Indonesian firms. Other studies by Gregory et al. (2024) and Balios and Zaroulea (2020) similarly found a negative but insignificant relationship between audit committee expertise and firm performance, as measured by ROA and ROE. A possible explanation is that financial experts primarily prevent managerial misconduct rather than directly enhancing firm performance. These findings highlight the importance of ensuring that the appointment of financially skilled audit committee members is accompanied by adequate authority, independence, and active involvement in strategic processes. Without these conditions, their presence may serve only as a formality rather than substantively contributing to improving firm performance.

The study further shows that Audit Committee size has a positive and significant effect on both ROA and ROE. This supports agency theory, which posits that stronger governance mechanisms, such as larger audit committees, serve as effective oversight instruments that help suppress managerial opportunism and enhance the quality of strategic decision-making, ultimately contributing to improved firm performance. This finding is consistent with Gregory, Yusoff, Tapsir, and Fauzi (2024), who demonstrated that larger audit committees significantly enhance financial performance measured by ROA and ROE, as increased resources enable better monitoring of financial reporting and internal controls. Similarly, Shatnawi et al. (2020) found that Audit Committee size is positively and significantly associated with firm performance, suggesting that larger committees may improve the accuracy and quality of financial statements and help address underlying reporting issues. Additionally, agency theory emphasizes that managerial performance monitoring is an effective mechanism for reducing self-interest behavior and minimizing conflicts between ownership and management (Jensen & Meckling, 2019). These findings underscore the importance of firms not only meeting the minimum regulatory requirements for audit committee membership but also ensuring diversity of expertise and independence to optimize the committee's oversight effectiveness.

4.2.3 Sustainability Reporting and Firm Performance

This study indicates that there is no significant relationship between Sustainability Reporting and either ROA or ROE. According to legitimacy theory, this nonsignificant result suggests that sustainability reporting practices in many firms remain largely symbolic rather than substantive and, therefore, are not strong enough to influence market perceptions or improve financial performance (O'donovan, 2002). Arfiani and Sugeng (2022) conducted a regression analysis on 63 IDX-listed manufacturing firms for the 2018–2022 period and similarly reported that the disclosure of environmental and social aspects in sustainability reports did not have a partial effect on financial performance (ROA). These findings are consistent with those of Ardiansyah and Hersugondo (2024), Nisa et al. (2024), and Nadifah et al. (2025), who also found no significant influence of ESG disclosure on ROA and ROE. A key explanation for this pattern is the relatively low quality and depth of the disclosures. Ardiansyah and Hersugondo (2024) noted that the average ESG disclosure score remains below 50%, and only approximately 85 out of 900 PROPER-rated companies have complete data, resulting in limited disclosure variability that is insufficient to affect financial ratios. The practical implication of these findings is that firms need to improve the depth and quality of their sustainability report content—not merely fulfill formal requirements—so that sustainability reporting can genuinely strengthen legitimacy and eventually contribute positively to their long-term performance. For investors, these results serve as a caution that not all sustainability reports can be used as reliable performance indicators; thus, a more critical assessment of disclosure quality is necessary when evaluating a firm's sustainability practices.

5. Conclusion

5.1 Conclusion

The conclusions of this study are as follows.

1. Board Expertise has a significant negative effect on ROA and ROE.
2. Board Size & Audit Committee Expertise have no significant effect.
3. Audit Committee Size: has a significant positive effect on both ROA and ROE.
4. Sustainability Reporting: has no significant effect on profitability

The theoretical implications of this study contribute to the corporate governance and sustainability reporting literature in developing countries by demonstrating that the effectiveness of governance mechanisms and sustainability reporting cannot be generalized; rather, it is influenced by the quality of implementation, institutional context, and regulatory limitations. From a practical perspective, the findings suggest that firms should not merely increase the number of board or audit committee members or rely solely on formal expertise but must ensure the effectiveness of their roles, independence, and quality of involvement in business strategy. For regulators, the results highlight the need to encourage deeper sustainability disclosure standards so that such reporting provides tangible benefits for both social legitimacy and improved financial performance.

5.2 Recommendations

Future research may broaden the scope to other industrial sectors to improve generalizability and consider mediation or moderation variables, such as disclosure quality, firm complexity, or institutional ownership, that may influence the relationship between corporate governance, sustainability reporting, and financial performance.

Limitations and Future Research

This study has limitations in terms of sample coverage and research design. Since it only examines Food & Beverage companies that published complete financial and sustainability reports on the IDX during 2021–2023, generalizing the findings to other sectors or different periods should be done cautiously. The use of secondary data and a quantitative multiple linear regression approach also limits our ability to capture internal organizational dynamics and stakeholder motivations. For future studies, it is recommended to expand the sample to manufacturing, service, and green sectors; use mixed methods with in-depth interviews or case studies to capture the organizational context; and explore potential mediation or moderation variables.

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