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# Do corporate governance drive firm performance? Evidence from Indonesia

*A governança corporativa impulsiona o desempenho da empresa? Evidências da Indonésia*

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**Abstract:** This study examines the effect of audit committee characteristics and board diversity on the performance of companies in Indonesia. In addition, this research also explores the effect of the audit committee's characteristics and the board's diversity on the company's performance in various age classifications. The study involves 170 samples of primary and secondary sector firms registered on the Indonesian Stock Exchange from 2014 to 2020, analyzed by data panel regression analysis. The study's main findings disclosed that the audit committee's size and the competence of the financial audit committee are positively influencing the market-based firm performance. However, it does not significantly affect the audit committee's meeting frequency regarding the market-based strong performance. Furthermore, the study discloses that foreign and board gender positively influences market-based firm performance. Such findings benefit policymakers in developing appropriate governance mechanisms in the Indonesian market as a developing country. To the best author's knowledge, this study is the first to comprehensively analyze the association between audit committee characteristics and board diversity on market-based firm performance. Furthermore, no previous study conducted additional analyzes based on firm age in the Indonesian context.

**Keywords:** Strategy and Organization; Firm performance; Audit committee; Quality Management; Good corporate governance.

**Resumo:** Este estudo examina o efeito das características do comitê de auditoria e da diversidade do conselho sobre o desempenho das empresas na Indonésia. Além disso, esta pesquisa também explora o efeito das características do comitê de auditoria e da diversidade do conselho sobre o desempenho da empresa em várias classificações etárias. O estudo envolve 170 amostras de empresas do setor primário e secundário registradas na Bolsa de Valores da Indonésia de 2014 a 2020, analisadas por análise de regressão em painel de dados. As principais conclusões do estudo revelaram que o tamanho do comitê de auditoria e a competência do comitê de auditoria financeira estão influenciando positivamente o desempenho da empresa baseada no mercado. No entanto, não afeta significativamente a frequência de reuniões do comitê de auditoria em relação ao forte desempenho baseado no mercado. Além disso, o estudo revela que o gênero estrangeiro e do conselho influenciam positivamente o desempenho da empresa baseada no mercado. Tais descobertas são benéficas para os formuladores de políticas no desenvolvimento de um conjunto de mecanismos de governança apropriados no contexto do mercado indonésio como um país em desenvolvimento. Para o melhor conhecimento do autor, este estudo é o primeiro a analisar de

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forma abrangente a associação entre as características do comitê de auditoria e a diversidade do conselho no desempenho da empresa baseada no mercado. Além disso, nenhum estudo anterior realizou análises adicionais com base na idade da empresa no contexto indonésio.

**Palavras-chave:** Estratégia e Organização; Desempenho da empresa; Comitê de auditoria; Gestão da Qualidade; Boa governança corporativa.

## 1 Introduction

The firm performance depends on the quality of Corporate Governance (CG) (Al Farooque et al., 2019; Detthamrong et al., 2017; Eluyela et al., 2018). It is believed that good governance will maintain the trust of the stakeholders (Tjahjadi et al., 2021). Moreover, the corporate board will direct the firm and monitor the firm's operations to achieve the established targets. According to the Agency Theory, managers will be more likely to prioritize their interest over the shareholders' welfare. Therefore, a monitoring system to effectively reduce or entirely abolish the conflict of interest is required to form (Al Farooque et al., 2019). Good corporate governance will create check and balances systems; as a result, a balance in the company will be created, and it will also be able to reduce the agent cost (Al-ahdal et al., 2020; Harkin et al., 2020; Suhadak et al., 2019). Hence, effective corporate governance will be able to direct excellent firm performance by reducing agent costs (Eluyela et al., 2018; Harun et al., 2020; Musallam, 2020).

Then, the audit committee is considered the main constituent in an effective corporate governance system and plays an essential role in achieving high corporate performance (Al-Okaily & Naueihed, 2019). The existence of an audit committee in the company will cause financial difficulties (Coleman & Wu, 2020; Miglani et al., 2015). The audit committee, with its expertise, will ensure good report quality and improve internal control and risk management through intense supervision (Oussii et al., 2019). Furthermore, the audit committee is responsible for selecting a public accounting firm to examine the company's financial statements, ensuring quality control processes, and accessing documents required during audits by external auditors (Bishop et al., 2016; Oussii et al., 2019; Salleh & Stewart, 2012). The audit committee will reduce conflicts of interest through quality information (Agyemang-Mintah & Schadewitz, 2018). Thus, the company's performance will increase (Al-Okaily & Naueihed, 2019).

On the other hand, the board is considered a party with a fundamental role in corporate governance (Yasser et al., 2017). In terms of structure, corporate boards are assumed to have better performance when the boards are diverse; they will be better able to accommodate the interests of shareholders (Agyemang et al., 2015; Yasser et al., 2017). The board is responsible for the company's performance and for improving shareholders' welfare. Thus, they will determine the most effective and efficient strategic steps in achieving these goals (Ntim, 2013; Salehi et al., 2018). In addition, continuous monitoring and evaluation of the company's activities will improve the company's performance (Assenga et al., 2018; Musallam, 2020). Although many variables are associated with the board in the corporate governance mechanism, this research will focus on the diversity of national and gender boards.

A study has already been conducted investigating the association between Corporate Governance (CG) and firm performance. However, the study's findings are mixed and cannot be concluded. Furthermore, a positive association has occurred (Eluyela et al., 2018; Musallam, 2020; Puni & Anlesinya, 2020; Tanjung, 2020). Nevertheless, a negative association between CG and firm performance has been discovered (Meah et al., 2021; Suhadak et al., 2019). Meanwhile, (Al-Matari, 2022; Bansal & Sharma, 2016; Borlea et al., 2017; Fauzi et al., 2017) failed to discover a significant correlation between CG and firm performance. Therefore, the study is conducted to fill the gap between the earlier studies. In addition, the previous studies relate to more widely researched developed countries and cannot be generalized to other countries due to the differences in corporate governance structures and cultures (Arora & Sharma, 2016). Therefore, (Mishra & Kapil, 2017) suggest researching country-specific corporate governance performance. However, despite this call, there is still a dearth of corporate governance literature in most emerging economies, especially Indonesia (Assenga et al., 2018; Darko et al., 2016; Ntim, 2013).

The empirical studies on the Indonesian firm market performance-CG are still limited. The study's motivation is that Indonesia is a developing country where the institutions implementing good corporate are considerably low in maintaining the rights of the shareholders. CG principles are considered new for the Indonesian market, with no more than 20 years since the early adoption of the Organization for Economic Co-operation and Development (OECD) principles into the 2001 CCG (Tanjung, 2020; Utama et al., 2017). In addition to being acknowledged as a developing country, Indonesia indicates a promising future for its market and economy since Indonesia is the only ASEAN country serving as a member of the G20 association. Subsequently, the Republic of Indonesia President has advised foreign investors to invest in Indonesia from the social and political aspects. As a result, it will affect the investment climate in Indonesia, which will also impact the corporate governance structure in companies (Tjahjadi et al., 2021).

Based on the uniqueness of the Indonesian setting, this study differs from previous studies in that it broadens its objectives; simultaneously examines the characteristics of the audit committee and the diversity of the board on the company's performance which has not been done in Indonesia. In addition, the research focuses on discussing market-based firm performance by applying two different measurements. Initially, market-based firm performance is chosen since it is difficult to be manipulated by the corporates through earning management. On the other hand, unlike “backward-looking” accounting-based performance, market-based measurement is “forward-looking”; thus, it depends on the information reflecting the expectation of the market about the future of the firm (Al Farooque et al., 2019). In addition, market-based measurement provides more consistent results since the market performance is influenced by the macro events that will eventually influence the company's future cash flow factored into the current market price. Besides that, an additional analysis is carried out based on the company's age, which shows the stability of the company's performance so far. This study is the first to be conducted mainly in the Indonesian context.

Our study attempts to make some contributions to the literature. First, our research contributes to agency theory by showing that proper management, audit committees, foreign boards, and gender boards will strengthen oversight functions and reduce agency costs, promoting improved firm performance. Second, to the authors' knowledge, this study is the first to comprehensively analyze the association between audit committee characteristics and board diversity on market-based firm performance by analyzing each company's age classification. This is different from previous studies that discussed the association between corporate governance and company performance (Al Farooque et al., 2019; Arora & Sharma, 2016; Bhagat & Bolton, 2008; Eluyela et al., 2018; Musallam, 2020; Puni & Anlesinya, 2020; Tanjung, 2020). So this research will expand and deepen the study of company performance. Furthermore, we show that modeling the interaction effects of corporate governance mechanisms can explain the ongoing debate over the association between audit committees and board diversity on firm performance.

Practically, our results are essential for regulators in formulating corporate audit committees and boards policies and increasing the diversity of audit committees and boards that are positive on financial performance. Managers making the results of this study in managing the size of the audit committee, his expertise in forming the audit committee, and most importantly, based on this finding that it is not very effective if audit meetings are carried out frequently. In addition, this study suggests that company managers also pay attention to the composition of the board and the board of foreign gender in the company to affect company performance positively.

Following is the structure of the study. Second, the study covers a relevant literature review and hypothesis development. Third, the study covers the research design and methodology. Fourth, the study consists of the empirical results of the study, and lastly, the study consists of the conclusion, limitations, and suggestions.

## 2 Theoretical basis and hypotheses development

### 2.1 Agency theory and Stewardship theory

The study applies agency theory and Stewardship Theory in discussing the correlation between the audit committee and board diversity toward the firm performance. Agency Theory is the primary theoretical approach to clarifying the correlation between CG and financial performance (Aldhamari et al., 2020; Aslam & Haron, 2020). Theoretically, good relations between the principal and agent are challenging since the conflict of interest between the principal and agent can stimulate fraud. The frauds committed by the managers are motivated by promising compensation from the principal. If the managers can manage the firm well and because the managers are worried that the corporate will not be able to achieve the established targets, the managers will be discharged from the position. Therefore, the managers will show their excellent performance in the financial report even though falsifying the information on the financial report is required (El Diri et al., 2020; Wahyudin & Solikhah, 2017).

Moreover, information asymmetry will enable the managers of the corporate. They control the resource to gain profits by sacrificing the interests of the company's external parties, including the investors and other shareholders (El Diri et al., 2020; Imamah et al., 2019). Therefore, Agency Theory proposes that the firm owner implement good corporate governance to minimize fraud (Al-Najjar & Clark, 2017). Furthermore, the firm has opportunities to improve its financial performance if the agency cost is minimalized. Agency costs are the loss of value by shareholders due to differences in interests between managers and owners. In addition, agency costs captured in the market stock affect the firm's stock price, and it will also affect the market-based firm performance.

Thus, to reduce agency costs, it is necessary to understand and apply effective corporate governance control mechanisms to encourage managers to initiate specific actions in the principal's best interests. Furthermore, an assumption in the Agency Theory states that a well-developed market indicates no control of the corporate where in the future, it will lead to market failure, asymmetric information, incomplete contracts, and other frauds that may disadvantage the corporate stakeholders. With that being stated, it was evident that CG is required to reduce the loss and improve the firm performance due to the agency costs (Al-ahdal et al., 2020; Kyere & Ausloos, 2020; Liang et al., 2020; Rodrigues et al., 2020).

On the other hand, Stewardship Theory assumes that a manager may show honesty in carrying out his duties, even though he has more information than the principals. Additionally, Stewardship Theory indicates that the Directors can achieve the organizational objectives of the shareholders by maximizing their utilities than prioritizing their interests. In addition, the Stewardship theory predicts that allowing managers to work wisely can stimulate them to perform better. The theory has also agreed that managerial behavior is not only stimulated by financial rewards but also requires wisdom to maximize the shareholders' value. Furthermore, the Stewardship theory assumes that managers have moral responsibilities in carrying out their duties and maintaining their reputations. As a result, it will encourage the managers to initiate specific actions according to the interests of the shareholders. Therefore, agency costs will be minimalized. The psychological side has been found from the argument that managers can provide the best when they show a satisfying job. Moreover, there is the possibility that managers will make their own decisions without having to get through the bureaucratic process to improve employee job satisfaction that contributes to the whole financial performance of the corporate (Kyere & Ausloos, 2020).

## 2.2 Corporate governance in Indonesia

The fundamentals of excellent corporate governance are necessary to promote the development of an effective, transparent, and compliant market with laws and regulations (Setyahadi & Narsa, 2020). The implementation of good corporate governance in Indonesia began in 1999 as and response to the Asian financial crisis, including Indonesia in 1998 (Tanjung, 2020). Thus, it can be concluded that Indonesia is still relatively new in implementing good corporate governance. Therefore, Indonesia has significant challenges in implementing good corporate governance; one of the biggest is the characteristics of ownership concentrated in Indonesian companies. Companies in Indonesia are generally formed from small companies whose capital is owned by a family or group of people. As a result of the characteristics of concentrated ownership, it creates several weaknesses, such as obstacles for outside investors, false company documents, and violations that are detrimental to the interests of shareholders as a result of a lack of supervision (Utama et al., 2017). Furthermore, various studies explain weaknesses in the Indonesian corporate governance system (Tanjung, 2020). namely the lack of protection for shareholders (La Porta et al., 1998); inadequate disclosure in the market (Rosser, 2003)); and weak law enforcement agencies (Johnson et al., 2000; Mitton, 2002).

In addition, various studies also show that Indonesia is relatively worse off compared to other countries. Indonesia is often at the bottom of the rankings compared to neighbouring countries and other Asian countries (Tanjung, 2020; Utama et al., 2017). Although the Indonesian government has been aggressive in encouraging companies to implement good corporate governance in recent years, continuous improvements must still be made to achieve a better corporate governance plan.

## 2.3 Audit Committees Size and firm performance

In the Indonesian context, the primary duty of the audit committee is to assist the Board of Commissioners in monitoring operations activities in the firm. In carrying out the duties, one of the crucial roles of the audit committee is to ensure that the integrity of the corporate's financial reporting meets the corporate governance standard. As a result, the financial reporting information meets the quality and can be trusted by the investors (Inaam & Khamoussi, 2016). Furthermore, it is expected that the audit committee will be able to minimize fraud and encourage the firm to operate effectively and efficiently. With that being stated, the audit committee is vital in supporting good firm performance.

According to the Agency Theory, an audit committee that works independently will highly contribute to the strategic decisions and improve decision control as well as the activities of managers that will be able to decrease the opportunistic behavior of the managers (Abad & Bravo, 2018; Chakroun et al., 2020; Said et al., 2017). Therefore, the scale of the audit committee is highly affecting its performance of the audit committee. Therefore, the scale of the audit committee by the needs of the corporate is one of the critical factors in determining the effectiveness of the implementation of supervisory duties on management behavior. Furthermore, an extensive audit committee will be able to expand the diversity of the audit committee members' points of view, competence, and experience (Meah et al., 2021; Musallam, 2020). To conclude, the large scale of the audit committee will be able to increase the firm performance (Aslam & Haron, 2020; Klein, 2002; Nawawi et al., 2020).

H1. The audit committee's size positively influences firms' performance.

## 2.4 The Financial expertise of the audit committee and firm performance

Educational background is one way to discover the audit committee's financial competence: Accounting, Financial Management, or participating in financial training. The primary function of the audit committee is not only to conduct managerial monitoring but also to provide resources. In particular, financial expertise may be required to perform their monitoring better and resourcing roles as the functions performed by audit committee members require a thorough knowledge of accounting standards, practices, and procedures (Abad & Bravo, 2018). The financial expertise of the Audit Committee will make them more reliable in their duties and increase public confidence in the corporate (Farber et al., 2016). On the other hand, the financial expertise of the audit committee is considered to have a small contribution to the internal control issue of the corporate, and it will be able to improve the effectiveness of the internal mechanism control in the corporate (Kim et al., 2015). Furthermore, the audit committee's financial expertise will be able to increase investor confidence by improving the quality of financial reporting (Bajra & Čadež, 2018) and will make a positive contribution to the company's performance (Alderman & Jollineau, 2020; Oussii et al., 2019; Siagian & Siregar, 2018).

H2. The financial expertise of the audit committee positively influences firms' performance.

## 2.5 Audit committee's meeting and firm performance

A meeting is a medium to discuss and resolve specific issues and problems overcome by the corporate (Ashari & Krismiaji, 2020). On the other hand, the audit committee's meeting shows its commitment to running its monitoring function. Therefore, the meeting of the audit committee members requires good planning and preparation. The audit committee members must attend the organized meetings, including the meetings with the interested parties such as the board of commissioners, board of directors, and internal and external auditors. In addition, the meeting also serves to monitor the firm's operation intensively. With that being said, the frequent meetings of the audit committee will produce better monitoring mechanisms and encourage the managers to run their duties better (Al Farooque et al., 2019). Therefore, the frequent meeting organized for the audit committee will improve the firm's performance (Chiu et al., 2021; Musallam, 2020; Worokinasih & Zaini, 2020).

H3. The intense meeting frequency of the audit committee positively influences firms' performance.

## 2.6 Foreign board and firm performance

Considering that the board highly determines all company activities, the foreign board also plays a crucial role in the company activities. The firm considerably positively influences foreign boards. Protecting the interest of the shareholders will be more effective if the foreign board implements it since the local board is known to be susceptible to conflict of interest. Foreign boards are more independent since they are not the citizens of the country where the firm is located, and they do not indicate any school and relative affiliations with the controlling shareholders (Mi Choi et al., 2012). In addition, foreign boards will positively impact the corporate such as new expertise and competence presented for the corporate, cultures, and values that will enable the high-quality decision-making process (Ibrahim & Hanefah, 2016; Kao et al., 2019).

H4. The foreign board positively influences firms' performance.

## 2.7 Board gender diversity and the firm performance

The gender diversity of the corporate board will positively contribute to the firm performance. According to the Agency Theory, the duties of the board are to carry out and monitor the operation activities by minimizing the agency issues (Meah et al., 2021). Therefore, women on the Board of Corporate will provide positive aspects in the corporate monitoring and operation activities since it is considered that women are more diligent and willing to make extra efforts in the monitoring process. As a result, it will create good governance and minimize conflicts of interest. Moreover, women are more sensitive to social and environmental issues. As a result, it will increase the firm's reputation, positively influencing its performance. In addition, the existence of women on the corporate board will increase the good sustainable cooperation with the external parties, creating broader relations and better understanding, particularly in dealing with the women target. Moreover, the participation of women on the corporate board will relieve the gender discrimination stigma in the corporate that contributes to increasing the corporate reputation (Ararat & Yurtoglu, 2021).

H5. The board's gender diversity positively influences the firm's performance.

# 3 Methodology

## 3.1 Data source and samples

The data used in the study is secondary data obtained from the Indonesia Stock Exchange website and the official websites of the corporates involved in the study. The samples used in the study are primary and secondary sector corporate registered on the Indonesia Stock Exchange from 2014 to 2020. The samples are selected through several criteria that produce 170 final samples of the corporate with 1064 observations.

## 3.2 Variable measurement

### Dependent variable

The dependent variable of this study is the firm performance observed in this study as proxied by Tobin's Q (TBQ) and Market to book value (MTB); the measurement is accessible as seen in Table 1.

### Independent variable

The study applies independent variables of the audit committee characteristics and board diversity. The audit committee is proxied with the audit committee's size (ACS), Audit Committee Financial Expertise (ACFE), and Audit Committee Meetings (ACM). Meanwhile, board diversity is proxied with the foreign board (FORB) and gender diversity (BGD). The measurement is accessible in Table 1.

### Control variables

The study applies the following control variables: Age of the firm (FAGE), size of the firm (FSIZE), listing age of the firm (LIST_AGE), and leverage. The summary of the variables and their measurement are accessible in the following Table 1.

**Table 1.** Variable Measurement.

| Variables | Measurement |
|---|---|
| *Dependent variable* | |
| Tobin's Q (TBQ) | [(The number of ordinary shares *stock price at the four year-ends) + (the number of preferred shares *face value) + book value of total liabilities]/ book value of total assets |
| Market to Book Value (MTB) | Stock Price/ Book Value per Share |
| *Independent variable* | |
| Audit Committee Size (ACS) | Total number of the audit committee in the firm |
| Audit Committee Financial Expertise (ACFE) | The total number of the audit committee holding an educational background in the Accounting and Financial sector |
| Audit Committee Meeting (ACM) | Total number of organized meetings by the members of the audit committee each year |
| Foreign board (FORB) | Total number of the foreign board divided by the total number of the members of the board |
| Board gender diversity (BGD) | Dummy variable, 1 to indicate the participation of women in the board, 0 to indicate no participation of women in the board |
| *Control variable* | |
| Leverage (LEV) | Total debt divided by total assets |
| Size of the Firm (SIZE) | Natural logarithm of the company's total assets |
| Age of the FIrm (AGE) | Age of the company since the date of the establishment |

## 3.3 Empirical model

The study applies the regression approach of the data panel to review the association between the audit committee characteristics and board diversity regarding the firm performance. Following is the regression model applied in the study in regression 1 and 2:

$$TBQ = \beta 0 + \beta 1 ACS + \beta 2\ ACFE + \beta 3\ ACM + + \beta 4\ FORB + \beta 5 BGD + \beta 6\ LEV + \beta 7 SIZE + \beta 8 AGE + \int \quad (1)$$

$$MTB = \beta 0 + \beta 1 ACS + \beta 2\ ACFE + \beta 3\ ACM + + \beta 4\ FORB + \beta 5 BGD + \beta 6\ LEV + \beta 7 SIZE + \beta 8 AGE + \int \quad (2)$$

Where TBQ is Tobin's q, MTB is Price to Book Value, ACS is the size of the Audit Committee, ACFE is the Audit Committee Financial Expertise, ACM refers to the Audit Committee Meeting, FORB refers to the foreign board, BGD refers to the Board Gender Diversity, LEV indicates Leverage, SIZE refers to the size of the firm and AGE indicates the age of the firm.

# 4 Results and discussion

## 4.1 Descriptive statistic

Table 2 indicates the descriptive statistics in every variable that consists of the minimum score, maximum score, average, and deviation standard. Table 2 shows that the average Indonesian market-based firm performance in the recent seven years shows positive results with no significant score indicated. Furthermore, the size of the audit committee in the corporations generally has reached the minimum requirements by having three members. Meanwhile, the foreign board indicates that Indonesian firms show relatively high foreign boards. The company's average leverage is 1,019, meaning Indonesian companies generally have a not-so-high leverage ratio. The average company size is 21.95 percent, with a minimum score of 18.7; Indonesian companies have pretty good growth. Finally, the age of the sample companies, in general, is 37 years, which means that Indonesian companies are good enough to survive in various economic conditions.

**Table 2.** Descriptive statistics.

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| TBQ | 1064 | 1.022 | 1.642 | .039 | 11.479 |
| MTB | 1064 | 1.948 | 3.875 | -.394 | 30.168 |
| ACS | 1064 | 3.158 | .68 | 1 | 5 |
| ACFE | 1064 | .634 | .266 | 0 | 1 |
| ACM | 1064 | 6.773 | 4.729 | 0 | 27 |
| FORB | 1064 | .145 | .207 | 0 | .769 |
| BGD | 1064 | .206 | .297 | 0 | 1 |
| LEV | 1064 | 1.019 | 1.009 | -2.168 | 4.19 |
| SIZE | 1064 | 21.95 | 1.572 | 18.712 | 25.351 |
| AGE | 1064 | 37.31 | 19.069 | 8 | 117 |

## 4.2 Pearson correlation

The correlations of the independent variables on firm performance are reported in Table 3. The result of the Pearson correlation test implies that the research model applied in the study is not indicating multicollinearity problems.

**Table 3.** Matrix of correlations.

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| TBQ | 1.000 | | | | | | | | | |
| MTB | 0.906 | 1.000 | | | | | | | | |
| ACS | -0.043 | -0.046 | 1.000 | | | | | | | |
| ACFE | 0.085 | 0.113 | -0.237 | 1.000 | | | | | | |
| ACM | -0.052 | -0.040 | 0.283 | -0.080 | 1.000 | | | | | |
| FORB | 0.147 | 0.118 | -0.150 | 0.026 | -0.035 | 1.000 | | | | |
| BGD | 0.152 | 0.171 | 0.029 | -0.166 | 0.036 | -0.110 | 1.000 | | | |
| LEV | -0.013 | 0.173 | 0.023 | 0.062 | -0.007 | -0.034 | 0.020 | 1.000 | | |
| SIZE | 0.116 | 0.088 | 0.113 | -0.178 | 0.155 | 0.103 | 0.167 | 0.148 | 1.000 | |
| AGE | 0.173 | 0.176 | -0.068 | 0.099 | 0.040 | 0.111 | -0.150 | -0.000 | -0.007 | 1.000 |

## 4.3 Hypothesis testing

According to Table 4, the study discloses that the firm's size (ACS) positively influences the TBQ and MTB. The finding supports H1. With that being stated, the audit committee's role will get better when the audit committee has a more significant number of members. As a result, the audit committee in the executive monitoring will decrease the agency cost of the firm. In addition, based on agency theory, when supervision is strengthened due to more resources owned by the audit committee, opportunistic actions taken by managers will be minimized. As a result, the firm performance will increase. The finding is in line with the previous studies stating that the size of the audit committee increases the market–based firm performance (Aslam & Haron, 2020; Klein, 2002; Musallam, 2020; Nawawi et al., 2020).

**Table 4.** Main results of regression.

| | (1) | (2) |
|---|---|---|
| | **TBQ** | **MTB** |
| ACS | 0.189** | 0.348** |
| | (2.59) | (2.00) |
| ACFE | 0.690*** | 1.864*** |
| | (3.72) | (4.21) |
| ACM | -0.010 | -0.013 |
| | (-1.02) | (-0.53) |
| FORB | 1.325*** | 2.756*** |
| | (5.87) | (5.12) |
| BGD | 1.062*** | 2.854*** |
| | (6.11) | (6.88) |
| LEV | -0.002 | 0.710*** |
| | (-0.05) | (6.56) |
| SIZE | 0.104*** | 0.088 |
| | (3.34) | (1.19) |
| AGE | 0.012*** | 0.033*** |
| | (5.09) | (5.62) |
| Intercept | -2.997*** | -4.768*** |
| Industry effect | Included | Included |
| Years effect | Included | Included |
| *N* | 1064 | 1064 |

*t* statistics in parentheses. N meaning is Total observation. **$p < 0.05$; ***$p < 0.01$.

Moreover, the study has also disclosed that the audit committee's financial expertise positively influences the market-based firm performance on TBQ and MTB. Furthermore, this finding supports H2. In addition, firms with an audit committee with financial expertise will positively influence them since they indicate fewer internal control issues regarding financial reporting. On the other hand, their performance is more reliable since they get used to working with the mechanism and procedure of the firms' finances. Moreover, it will also lead to public trust in the firm, especially the auditors, which in the end, it will improve the firm's reputation and performance. Previous studies have supported such findings that audit committee financial expertise positively influences the firm's performance (Alderman & Jollineau, 2020; Oussii et al., 2019).

As in the audit committee meeting, the research findings indicated no significant influence in the audit committee meeting and the firm performance both in TBQ and MTB, which means H3 is unaccepted. The finding is against the theory and prediction in the beginning. The finding is in line with the previous studies disclosing that the audit committee meeting cannot improve the firm performance (Al-Matari, 2022; Bansal & Sharma, 2016; Borlea et al., 2017; Fauzi et al., 2017). This finding is due to the relatively small number of Indonesian companies in the sample meeting frequency. On the other hand, consideration is required to implement the audit committee meeting should be based on its quality, not the quantity that, in the end, only serves as a formality.

Meanwhile, regarding the relationship between foreign boards and company performance, this study discloses a significant positive effect of foreign boards on company performance in TBQ and MTB. Thus, the hypothesis of H4 is accepted. This finding supports the argument that foreign boards will bring skills and knowledge, culture, and values that will improve decision-making quality, ultimately improving company performance. Furthermore, foreign boards that have been in Indonesia for a long time will also attract foreign investment to Indonesia. The results of this study align with the agency theory that foreign boards, through their capabilities, will minimize agency costs and improve firm performance. This finding aligns with the study (Mi Choi et al., 2012; Muttakin et al., 2015).

Lastly, this study discloses a significant positive relationship between board gender diversity and market-based firm performance in TBQ and MTB. Thus, H5 is accepted. Having women on the corporate board will bring a different and positive approach to the company since women demonstrate a high level of sensitivity and a strong emotional relationship with consumers, improving the firm's market performance. This study is supported by previous studies that found similar results (Agyemang-Mintah & Schadewitz, 2019; Assenga et al., 2018; Sarhan et al., 2018). In addition, women on the corporate boards will positively contribute to corporate governance because women are more diligent and willing to make more effort in monitoring organizational performance, which will reduce agency costs.

## 4.4 Additional test

The study has conducted additional tests on the relationship between the audit committee and board diversity toward the firm performance by viewing the influence of the matured and young corporates. Based on Table 5, this study finds exciting things: influence on relatively young companies and audit committee meetings can improve company performance. Thus, companies just starting their business require frequent audit committee meetings to create controls and oversight that are useful for improving the company's market performance. Furthermore, all variables that significantly positively affect the main regression results also found the same thing in “mature” corporates. The results show that companies operating for a longer time will be more stable in controlling performance through a better understanding of governance than companies that are pioneering or have only been running for a few years.

**Table 5.** Additional results of regression.

| | **(1)** | **(2)** | **(3)** | **(4)** |
|---|---|---|---|---|
| | **TBQ** | **MBR** | **TBQ** | **MBR** |
| ACS | 0.038 | -0.024 | 0.268** | 0.508* |
| | (0.45) | (-0.11) | (2.34) | (1.88) |
| ACFE | 0.209 | 0.530 | 1.183*** | 3.378*** |
| | (1.07) | (1.10) | (3.65) | (4.42) |
| ACM | 0.022* | 0.077** | -0.019 | -0.038 |
| | (1.71) | (2.45) | (-1.30) | (-1.08) |
| FORB | 1.185*** | 3.137*** | 1.677*** | 3.167*** |
| | (4.13) | (4.45) | (4.93) | (3.95) |
| BGD | 0.470** | 1.322*** | 1.644*** | 4.551*** |
| | (2.59) | (2.96) | (5.23) | (6.14) |
| LEV | -0.002 | 0.757*** | -0.011 | 0.643*** |
| | (-0.04) | (5.85) | (-0.15) | (3.77) |
| SIZE | -0.061 | -0.309*** | 0.251*** | 0.415*** |
| | (-1.57) | (-3.27) | (5.31) | (3.72) |
| Industry effect | Included | Included | Included | Included |
| Years effect | Included | Included | Included | Included |
| Intercept | 1.614 | 6.446** | -6.522*** | -12.606*** |
| | (1.82) | (2.96) | (-5.40) | (-4.43) |
| *N* | 514 | 514 | 550 | 550 |

*t* statistics in parentheses. N meaning is Total observation. *$p$ < 0.10; **$p$ < 0.05; ***$p$ < 0.01.

## 4.5 Robustness test

A robustness test was conducted using OLS regression to avoid bias in this study. Table 6 shows that the results of research on various models found similar things, so it can be concluded that the results of this study are robust.

**Table 6.** Robustness test.

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | **TBQ** | **MBR** | **TBQ** | **MBR** | **TBQ** | **MBR** |
| ACS | | | 0.196** | 0.354* | 0.189* | 0.348* |
| | | | -2.66 | -1.97 | -2.57 | -1.98 |
| ACFE | | | 0.666*** | 2.111*** | 0.690*** | 1.864*** |
| | | | -3.56 | -4.63 | -3.69 | -4.18 |
| ACM | | | -0.002 | -0.001 | -0.01 | -0.013 |
| | | | (-0.17) | (-0.06) | (-1.02) | (-0.52) |
| FORB | | | 1.545*** | 3.000*** | 1.325*** | 2.756*** |
| | | | -6.84 | -5.46 | -5.81 | -5.07 |
| | | | -6.84 | -5.46 | -5.81 | -5.07 |
| BGD | | | 1.057*** | 2.746*** | 1.062*** | 2.854*** |
| | | | -6.02 | -6.44 | -6.05 | -6.82 |
| LEV | -0.004 | 0.714*** | | | -0.002 | 0.710*** |
| | (-0.08) | -6.37 | | | (-0.05) | -6.5 |
| SIZE | 0.133*** | 0.154* | | | 0.104*** | 0.088 |
| | -4.28 | -2.06 | | | -3.31 | -1.18 |
| AGE | 0.012*** | 0.032*** | | | 0.012*** | 0.033*** |
| | -4.96 | -5.4 | | | -5.04 | -5.57 |
| Intercept | -2.643*** | -3.918* | -0.349 | -1.217 | -2.997*** | -4.768** |
| | (-3.62) | (-2.24) | (-1.04) | (-1.48) | (-3.95) | (-2.64) |
| Industry effect | Included | Included | Included | Included | Included | Included |
| Years effect | Included | Included | Included | Included | Included | Included |
| *N* | 1064 | 1064 | 1064 | 1064 | 1064 | 1064 |

*t* statistics in parentheses. N meaning is Total observation. *$p < 0.10$; **$p < 0.05$; ***$p < 0.01$.

## 5 Conclusion

The study reviews the characteristics of the audit committee board diversity towards the firm performance in the Indonesian context. First, equipped with the unique settings of Indonesia, the study reviews the association between the variables involved in the study. Then, it expands it by applying additional tests that, in the previous studies, it has been resulting in various outcomes. Finally, the study applies a regression method of panel data for 170 primary and secondary sector firms for seven years (2014 – 2020); the main results of the study disclosed that the audit characteristics cover the size of the audit committee and the audit committee's financial expertise that positively affects the market-based firm performance. However, no indication in the study has been found regarding the significant influence on the audit committee meeting frequency.

Furthermore, the study also discloses that the foreign board and board gender diversity significantly influence market-based-firm performance. The study has also concluded that younger firms require a higher frequency of audit committees to improve their performance. Meanwhile, mature firms show more stability compared to younger ones. That said, audit committees and board diversity can improve market-based firm performance.

The study contributes to the literature and practice. Our research contributes to agency theory by showing that proper management, audit committees, foreign boards, and gender boards will strengthen oversight functions and reduce agency costs, promoting improved company performance. So this research will expand and deepen the study of company performance. Practically, the manager in making the results of this study in managing the size of the audit committee, his expertise in forming the audit committee, and most importantly, based on this finding that it is not very effective if audit meetings are carried out frequently. In addition to its theoretical approach, the study provides additional practice on corporate governance and firm performance through a broader analysis in the Indonesian context. The study results can be used as new guidance in developing methods to improve market-based firm performance through good governance. The findings then give investors pertinent information on company performance and corporate governance in emerging nations, particularly Indonesia, and serve as a guide before investing in financial instruments. It is a component of the company's commitment and consistency to always care about company profitability to implement effective corporate governance throughout every aspect of the business and to create corporate values to realize this governance (Setyahadi & Narsa, 2020). As a result, it's crucial to concentrate on solid corporate governance, develop values, and steadily raise financial performance (Setyahadi & Narsa, 2020).

Moreover, the study has certain restrictions, particularly on the analysis coverage involving limited sampling in Indonesia's primary and secondary firms. In addition, the study still involves 2 CG structures in the analyzed research model. In the future, the study is expected to expand its coverage sample to cover other developing countries, apply three CG structures, and involve the ownership structure as an additional independent variable.

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**Authors contribution**

Arumega Zarefar was responsible for designing and writing this study. I Made Narsa supervised the study.