

Board Effectiveness and Firm Profitability in Indonesian Consumer Goods Firms: The Role of Audit Quality and Marketing Intensity Financial Point of View

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ABSTRACT

A This study examines the association between board effectiveness, audit quality, marketing intensity, and profitability in consumer goods firms listed on the Indonesia Stock Exchange during 2018–2024. The study focuses on nine issuers observed over eight years, yielding a balanced panel of 72 firm-year observations. The main variables include Board Effectiveness Score (BES), return on equity (ROE), advertising intensity, market share, leverage (DER), and Big 4 audit quality. Methods: The analysis uses Seemingly Unrelated Regression (SUR) because the error terms across the two estimated equations are correlated. To assess robustness, the estimations are compared with Huber robust regression and bootstrap OLS confidence intervals. The results show that, within the estimated model, advertising intensity, market share, ROE, and leverage are positively associated with BES. In the profitability equation, BES and Big 4 audit quality are positively associated with ROE, while market share is negatively associated with ROE. Results: All seven formulated hypotheses were proven significant at 95% to 99% confidence intervals. These findings suggest that governance and profitability are related in ways that also reflect firms' strategic and financial conditions. However, the results should be interpreted cautiously because the study relies on a small purposive sample, a composite governance measure, and an observational design that does not fully resolve endogeneity. The study therefore contributes sector-specific evidence rather than broad causal claims about corporate governance and firm profitability. Conclusion: The findings of this study confirm that corporate governance quality significantly correlates with profitability. These results reinforce the relevance of agency theory, signaling theory, and resource dependence theory in the context of emerging market capital markets.

INTRODUCTION

Recent studies on governance and firm performance in emerging markets generally emphasize board structure, ownership, or audit mechanisms, but many still estimate the relationship in single-equation frameworks and often exclude strategic market variables from the analysis. The IDX (IDX) is growing rapidly as a capital market, but this growth has not automatically been accompanied by uniform governance practices. Even within the same sector, variations between issuers can be striking. Sari and Gurendrawati (2022) note that in IDX manufacturing companies, strong independent board compositions and active audit committees have been shown to positively contribute to financial returns. In the Indonesian context, this leaves at least two unresolved issues. First, prior studies typically focus

on governance variables in isolation, even though profitability in consumer goods firms is also shaped by intensive advertising competition and market-positioning strategies. Second, most studies do not examine whether governance-related variables and profitability are empirically connected within a joint modeling framework. This study addresses these issues by focusing on consumer goods setting in which marketing intensity and market share are central strategic variables, and by estimating two related equations with correlated disturbances. Thus, the main contribution of this article is not to claim a new general theory of governance, but to provide sector-specific evidence on how board effectiveness, audit quality, and marketing-related variables are associated with profitability in Indonesian consumer goods firms.

From a global literature perspective, Abid, Shaique, and Anwar (2018) examined over 300 South Asian companies and concluded that board structure is indeed positively correlated with profitability, but the strength of that relationship depends heavily on contextual factors such as debt levels and marketing investment intensity. In other words, governance does not operate in a vacuum it is influenced by the strategic and financial situation of the company in which the board operates. This context is particularly critical in the consumer goods sector. Companies in this sector face persistent margin pressures: retail outlet competition, the threat of private label products, rapidly shifting consumer tastes, and the need to maintain brand equity through consistent marketing spending. In such an environment, agency risks can easily escalate. Managers can be tempted to prioritize short-term market share over long-term margins or allocate advertising budgets to personal image rather than sales volume. This is where strong board oversight becomes crucial (Ujunwa, 2020). Ujunwa (2020) examined consumer goods companies in Sub-Saharan African markets and found that companies with more effective boards were able to convert advertising dollars into longer-lasting profitability than companies with weak board oversight.

Although the governance–performance relationship has been extensively examined across developed and emerging markets, most prior studies remain concentrated on conventional governance attributes such as board independence, board size, ownership concentration, and audit committee characteristics. In that stream of literature, profitability is typically modelled as a direct outcome of governance quality, while strategic market variables are treated as background conditions rather than as analytically integrated determinants. As a result, an important blind spot remains: the interaction between governance architecture and market-facing strategic decisions, particularly in sectors where advertising expenditure and market-share competition are structurally central to firm behavior. This omission is especially consequential in consumer goods industries, where managerial discretion over branding, promotion, and pricing is substantial and where governance is expected not only to control opportunism, but also to discipline resource allocation under intense competitive pressure. Theoretically, Jensen and Meckling (1976) long ago warned that the separation between capital owners and company managers creates conflicts of interest that cannot be resolved simply without oversight mechanisms. Fama and Jensen (1983) went further, asserting that an effective board must be able to separate its decision-making function from its control function. More recently, Kumari and Pattanayak (2017) showed that in consumer goods companies, board oversight is most crucial when advertising intensity is high because that's when managers have the most room to exploit spending that could harm shareholders.

Indonesian regulations themselves have shaped this landscape. Since the revision of Financial Services Authority Regulation No. 33/POJK.04/2014, all IDX issuers are required to include a minimum of 30% independent commissioners. However, Wardhani, Utama, and Amarullah (2018) demonstrate that

the 30% figure is merely a threshold compliance with it does not necessarily reflect a truly functioning board. Companies that meet the same formal requirements can differ significantly in the frequency of committee meetings, the depth of discussions, and even the relevance of the expertise brought by independent commissioners. This gap between paper compliance and actual effectiveness is what the Board Effectiveness Score (BES) in this study attempts to measure. From an audit perspective, Agyei-Mensah (2019) studied West African issuers and found that Big 4 audit firms provide two benefits simultaneously: increasing the credibility of financial reports, thereby lowering the cost of capital, and disciplining management accounting choices through stricter oversight. These two pathways are the reason for including Big 4 audit quality as a separate governance variable in this research model, alongside BES.

This study adopts a quantitative econometric design using Seemingly Unrelated Regression (SUR) as the main estimation technique. The use of SUR is theoretically and statistically justified by the structure of the research problem. Unlike single-equation OLS, which estimates each relationship independently, SUR allows the simultaneous estimation of multiple equations whose error terms may be correlated. This feature is important in governance research because board effectiveness and profitability are not likely to evolve in isolation. Firms with higher profitability may have greater capacity to invest in governance quality, while stronger governance may in turn improve profitability through better monitoring, strategic discipline, and enhanced reporting credibility. Estimating these relationships separately with OLS risks losing efficiency and obscuring the interdependence between equations. Nguyen, Locke, and Reddy (2015) caution that ignoring this simultaneity can lead to biased estimates and erroneous conclusions about the direction of influence.

This study addresses this criticism by using SUR, which allows both equations to be estimated simultaneously. This conceptual framework drives the design of this study: governance is not a stand-alone variable that causes performance, but rather a variable that simultaneously shapes performance, leverage, marketing intensity, and market position. The consumer goods sector of the Indonesian Stock Exchange (IDX), with its significant governance heterogeneity, intense advertising competition, and diverse financial structures, provides an appropriate empirical arena to examine these relationships simultaneously. To demonstrate why a simultaneous approach is necessary, consider data from nine BEI consumer goods issuers over the period 2018 to 2024. Table 1 summarizes the average BES, ROE (ln), and Advertising Intensity (AI ln) of each issuer throughout the study period.

Table 1. Average BES, ROE, and Advertising Intensity per Issuer (2018–2024)

Issuer	Rat-rat BES	ROE rate	AI ln rate-rate	Auditor Big4
GGRM (Gudang Garam)	12,56	2,13	1,72	Of
ICBP (Indofood CBP)	7,38	2,71	1,92	Of
INDF (Indofood)	9,73	2,35	1,85	Of
KLBF (Kalbe Farma)	11,17	2,69	3,16	Of
MLBI (Multi Star)	34,22	4,10	2,62	Of

MYOR (Mayora Indah)	9,84	2,78	2,85	Of
BREAD (Nippon Indosari)	10,13	2,21	3,44	Of
ULTJ (Ultra Jaya)	5,11	2,87	2,57	Of
UNVR (Unilever)	84,15	4,92	3,84	Of
Sample Mean	20,48	3,09	2,66	95.8% of

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

At least three patterns are immediately striking from Table 1. First, the gap in BES between issuers is extraordinarily large. UNVR posted an average BES of 84.15 more than sixteen times that of UL TJ, which was only 5.11. This is despite both companies operating under the same OJK regulations. This is not a mere minor difference; it illustrates the profound gulf between companies that are genuinely building quality governance and those that merely meet minimum requirements. Sari and Gurendrawati (2022) observed a similar phenomenon among manufacturing issuers listed on the IDX and called it a hallmark of Indonesian corporate behavior: formal compliance is in place, but the substance often lags behind.

Table 2. Annual ROE Trend for Selected Issuers (2018–2024, ln values)

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

Second, as seen in Table 2, when issuers are ranked from highest to lowest BES, their ROE rankings tend to follow a similar pattern. UNVR (BES 84.15) recorded an ROE of 4.92 ln, MLBI (BES 34.22) recorded 4.10 ln, while GGRM with a BES of 12.56 only generated an ROE of 2.13 ln. This pattern is not perfect UL TJ, for example, despite its low BES, has a relatively stable ROE thanks to its strong position in the dairy niche where competitive pressures are less intense than in other FMCG segments. Exceptions like these suggest that the governance-profitability relationship does not operate mechanically, but rather depends on the competitive context of each issuer. Third, advertising intensity patterns also play a role. Issuers with high BES, such as UNVR (AI ln = 3.84), are also the largest advertisers in the sample. Conversely, GGRM, with a low BES, recorded the lowest advertising intensity (AI ln = 1.72). One interpretation of this pattern, based on Kumari and Pattanayak (2017), is that companies investing heavily in advertising have a strong reason to establish a more oversight board, because large advertising budgets are a potential playground for managerial waste. Another interpretation: companies with strong boards are better able to identify which advertisements truly create long-term brand value. Both of these possibilities can be tested simultaneously through the SUR model.

Another dimension not captured by the table averages is leverage. DER varies significantly across issuers: MLBI operates with relatively high leverage, while UL TJ is virtually debt-free. This variation is

important because, according to Wardhani et al. (2018), companies with high debt face greater pressure from creditors to demonstrate credible governance. This logic underlies hypothesis H4 in this study that higher DER goes hand in hand with better BES, not because debt automatically improves governance, but because creditor pressure encourages management to more seriously improve board quality. These four patterns together provide strong empirical justification for choosing a simultaneous model over conventional single-equation regression. They also define the questions the following hypothesis development seeks to answer.

This study addresses three related but distinct gaps. First, the research gap lies in the dominance of single-equation models in prior governance studies, which tend to examine governance or profitability in isolation and therefore provide only a partial view of their empirical relationship (Nguyen et al., 2015; Al-Faryan and Dockery, 2021). Second, the contextual gap concerns the Indonesian consumer goods sector, which remains underexamined despite its distinctive characteristics, including heavy advertising exposure, concentrated brand competition, and wide variation in governance practice among firms operating under the same regulatory framework (Agyei-Mensah, 2019; Ujunwa, 2020).

Third, the analytical gap concerns the limited integration of marketing variables such as advertising intensity and market share into governance-performance research, even though these variables are strategically important in consumer-oriented industries. Rather than claiming to resolve the broader governance-performance debate, this study is positioned as a sector-specific extension of emerging-market governance research. Compared with prior studies that emphasize board structure, ownership, or audit attributes in broader cross-sector settings, this study focuses more narrowly on whether board effectiveness and profitability display a consistent empirical association when estimated jointly within Indonesian consumer goods firms. Accordingly, this research is positioned at the intersection of corporate governance, strategic marketing, and firm profitability.

While prior international studies generally examine governance as a determinant of performance, and marketing studies separately analyze market share or advertising as strategic drivers, very few studies integrate these perspectives into a unified governance architecture framework. This article addresses that gap by asking not only whether governance matters for profitability, but also how marketing intensity, market position, leverage, and audit quality jointly shape the effectiveness of board oversight in an emerging-market consumer goods sector.

The novelty of this study does not rest on introducing a new grand theory, but on offering a more integrated empirical specification for a specific setting. In contrast to prior studies that usually analyze governance and performance separately, this study places board effectiveness and profitability within a linked two-equation framework and examines them alongside marketing position, leverage, and audit quality in Indonesian listed consumer goods firms. The contribution is therefore modest but specific: it shows how governance quality and profitability are empirically patterned together in a sector where brand competition and governance heterogeneity are both pronounced. Seven research questions were formulated: (1) Does advertising intensity have a positive effect on BES? (2) Does market share have a positive effect on BES? (3) Does ROE have a positive effect on BES? (4) Does leverage DER have a positive effect on BES? (5) Does market share have a significant effect on ROE? (6) Does BES have a positive effect on ROE? (7) Does Big4 audit quality have a positive effect on ROE? broadly speaking, this study aims to: first, identify the strategic and financial factors that shape the effectiveness of the board of commissioners;

second, test the influence of the board's effectiveness on company profitability; and third, validate the robustness of the findings through a comprehensive series of robustness checks.

METHOD

Research Design

This study employs a quantitative panel design using balanced panel data from consumer goods firms listed on the Indonesia Stock Exchange, with an econometric approach based on Seemingly Unrelated Regression (SUR) following Zellner (1962). SUR is selected because the two equations in this study are theoretically related and their residuals are empirically correlated ($r = -0.506$), indicating that joint estimation may improve efficiency relative to estimating each equation separately by OLS. However, SUR is not interpreted as fully resolving simultaneity or endogeneity concerns; rather, it is used as an efficiency-improving specification to capture cross-equation error dependence within a small balanced panel where board effectiveness and profitability are expected to be empirically connected.

Compared to alternative panel estimators, SUR is preferred for two practical reasons: first, the research objective is not primarily to estimate firm-specific unobserved heterogeneity but to examine whether the two linked equations exhibit a stable association structure when estimated jointly; and second, the relatively small sample of nine firms and 72 firm-year observations limits the reliability of more parameter-intensive approaches. Accordingly, the recursive specification is retained to provide a structured framework for analyzing how firm strategic and financial conditions relate to board effectiveness and how governance-related variables are associated with profitability, and the findings should therefore be interpreted as evidence of patterned associations within a bounded sample rather than as definitive causal effects. This simultaneous design choice refers to Nguyen et al.'s (2015) recommendation that governance research in Asia adopt an approach capable of capturing endogeneity, while also responding to Claessens and Yurtoglu's (2013) criticism of governance studies that ignore the interrelationships between variables.

Population and Sample

The population of this study consists of consumer goods issuers listed on the Indonesia Stock Exchange. Purposive sampling was applied using three criteria: continuous listing during 2018–2024, complete data availability for all variables, and the absence of major restructuring or delisting events during the observation period. Based on these criteria, nine firms were retained, generating 72 firm-year observations in a balanced panel. This sample is relatively small and selective, so the findings should be interpreted as exploratory and sector-specific rather than broadly generalizable to all Indonesian listed firms. Nevertheless, the restricted sample allows consistent comparison across firms with complete longitudinal information, which is important for the joint estimation strategy used in this study.

Operational Definition of Variables

Table 3. Operational Definitions of Research Variables

Variables	Symbol	Operational Definition	Scale
Board Effectiveness Score	BES	Board Effectiveness Score (BES) is constructed as a composite index ranging from 0 to 100 and is based on three observable components: (1) the proportion of	0–100

Variables	Symbol	Operational Definition	Scale
		independent commissioners, (2) the presence and composition of board committees, and (3) the frequency of board and committee meetings. Each component is first coded at the firm-year level and then normalized to ensure comparability across indicators. Unless otherwise stated, each component is given equal weight in the final score. The use of a composite index is intended to capture governance substance more adequately than reliance on a single structural indicator, particularly in a context where firms may satisfy formal regulatory requirements while differing considerably in actual board functioning (Aggarwal et al., 2011).	
Return on Equit	ROE	Comparison of net income to shareholders' equity. Values are transformed to natural log to meet the assumption of normality of distribution.	Log natural
Advertising Intensity	AI	The proportion of advertising costs to total sales, transformed to the natural log (Chauvin & Hirschey, 1993)	Log natural
Market Share	MS	The market share of each issuer in the consumer goods industry, transformed into natural log	Log natural
Leverage	THE	Total debt to shareholder equity ratio (Ngatno et al., 2021)	Ratio
Audit Quality	Big4	Dummy variable: takes a value of 1 if the company is audited by one of the big four firms (PwC, Deloitte, EY, KPMG); takes a value of 0 otherwise (Fariha et al., 2022)	0/1

Model Specifications

Two structural equations are estimated simultaneously within the SUR framework:

Equation 1 (Dependent Variable: BES)

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

Equation 2 (Dependent Variable: ROE)

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

The notation *i* refers to firms and *t* refer to year. The system is estimated jointly because the two equations may share correlated disturbances, but it should not be interpreted as a fully identified simultaneous-equations model in the strong causal sense. In this article, the specification is treated as a recursive empirical framework for examining related associations between firm conditions, board effectiveness, and profitability. Therefore, the coefficient estimates are discussed as conditional

associations within the sample, while acknowledging that reverse causality and omitted-variable bias may still be present.

Data Analysis Techniques

The analysis was conducted in eight sequential stages: (1) descriptive statistics to capture the characteristics of the data; (2) multicollinearity test with VIF; (3) Breusch-Pagan heteroscedasticity test; (4) main SUR estimation using Feasible GLS; (5) Robust Regression with Huber M-estimator to test robustness to outliers; (6) Bootstrap OLS with 1,000 iterations to check the validity of the confidence interval; (7) Quantile Regression at the median point (Q50); and (8) interpretation and managerial implications. Significance limits were set at 1% (***), 5% (**), and 10% (*).

RESULT AND DISCUSSION

Result

The results section should present the key findings of the study.

Descriptive Statistics

The identity of the respondents can be determined based on the respondent characteristics in Table 2 as follows:

Table 4. Descriptive Statistics of Research Variables (N = 72, Period 2018–2024)

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

BES has a mean of 21.22 and a standard deviation of 26.13, indicating substantial variation in observed board effectiveness across the sampled firms. This wide dispersion suggests that, even under the same formal regulatory environment, governance practices differ considerably across issuers. In addition, 95.8% of the observations are associated with Big 4 auditors, indicating limited variation in audit-quality classification within the sample. These descriptive statistics do not by themselves establish mechanism or causality, but they do show that governance quality and firm characteristics vary enough to justify further multivariate estimation.

SUR Estimation Results – Equation 1 (Dependent Variable: BES)

Table 5 presents the SUR estimation results for the first equation.

Table 5. SUR Estimation Results – Equation 1

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

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

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

The first equation reports positive and statistically significant coefficients for advertising intensity, market share, ROE, and leverage in relation to BES, with ROE showing the largest estimated coefficient in the model. Within the limits of this observational design, these results indicate that firms with higher profitability tend to exhibit higher BES values, while more highly leveraged firms are also associated with higher observed board-effectiveness scores; however, these estimates should be interpreted as empirical associations rather than direct evidence of causal mechanisms. The model also yields a relatively high in-sample fit ($R^2 = 0.919$), which should be interpreted cautiously given the small purposive sample, as it may partly reflect sample-specific structure or sensitivity to influential observations. Although ROE appears numerically dominant, direct comparison of coefficient magnitudes should be treated carefully because the variables are measured on different scales.

SUR Estimation Results – Equation 2 (Dependent Variable: ROE)

Table 6 presents the SUR estimation results for the second equation.

Table 6. SUR Estimation Results – Equation 2

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

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

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

In the second equation, BES and Big 4 audit quality are positively associated with ROE, while market share is negatively associated with profitability. Statistically, BES appears as the strongest correlate of ROE among the included predictors, although this interpretation should be treated with caution given differences in measurement scale and the observational nature of the model. Substantively, these findings suggest that governance quality, audit profile, and competitive position may be related to profitability in different ways, indicating that governance-related variables and firm performance move together in meaningful ways within the sample; however, these relationships should be interpreted as empirical associations rather than definitive evidence of causal mechanisms or predictor dominance.

Hypothesis Testing Results

To determine the length of service of harvesters, this can be calculated based on their length of service or period of employment. To determine the length of service of harvesters, please refer to Table 5 below:

Table 7. Hypothesis Testing Summary

Hypothesis	Coefficient	p-value	Say.	Sign	Remarks
H1: Advertising intensity → BES (positive)	6,609	0,0000	***	+	accepted
H2: Market share → BES (positive)	3,976	0,0000	***	+	accepted
H3: ROE → BES (positif)	17,267	0,0000	***	+	accepted
H4: DER → BES (positive)	7,044	0,0000	***	+	accepted
H5: Market share → ROE (significant)	-0,170	0,0000	***	-	accepted
H6: BES → ROE (positive)	0,035	0,0000	***	+	accepted
H7: Big4 → ROE (positif)	0,478	0,0373	**	+	accepted

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

Robustness Check

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

Table 8. Robustness Test Results

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

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

All three approaches the Huber M-estimator, bootstrap OLS, and to assess robustness, the SUR estimates were compared with Huber robust regression and bootstrap OLS confidence intervals. Across these procedures, the signs of the main coefficients remained consistent, and the bootstrap confidence intervals did not cross zero for the reported relationships. These checks increase confidence that the main findings are not driven solely by one estimation approach, although they do not eliminate concerns about endogeneity or small-sample sensitivity

Discussion

Advertising Intensity, Market Share, and Board Effectiveness

The positive association between advertising intensity and BES suggests that firms facing larger discretionary marketing expenditures may also have stronger incentives to maintain more structured board oversight. This interpretation is consistent with the governance literature that views monitoring as especially relevant when managerial discretion is high. At the same time, the present study does not directly observe the internal decision process behind advertising allocation, so this interpretation should be read as

plausible rather than conclusive. Similarly, the positive association between BES and ROE indicates that firms with stronger measured board effectiveness also tend to report higher profitability in this sample. Because BES is a composite measure and the design is observational, this result should not be read as definitive proof that improving BES will necessarily raise profitability by a fixed amount in other settings. Rather, the finding suggests that governance quality and profitability are empirically linked in economically meaningful ways among Indonesian consumer goods firms during the study period.

Governance Investment Cycle: Findings from the First Equation

The large positive coefficient of ROE in the BES equation is consistent with the interpretation that more profitable firms tend to sustain stronger governance arrangements. However, the reverse interpretation is also plausible: firms with stronger governance may be better positioned to preserve profitability over time. Because both directions are theoretically possible, the present findings are best understood as evidence of a reinforcing empirical relationship rather than definitive proof of a governance investment cycle.

BES as a Key Driver of Profitability

BES has a highly significant effect on ROE (H_6 is accepted; $t = 18.220$; $p < 0.001$). Although the direct effect appears small, the wide variation of BES in the sample indicates that increases in BES can lead to a substantial improvement in profitability in real terms. The positive and highly significant effect of BES on ROE provides strong support for the proposition that governance quality is not merely a formal institutional attribute, but a productive organizational capability. From the perspective of agency theory, an effective board reduces agency costs by strengthening oversight over managerial discretion, limiting opportunistic decision-making, and improving the alignment between management actions and shareholder interests. In consumer goods firms, where large discretionary expenditures may be allocated to advertising, promotion, pricing programs, and channel incentives, board effectiveness becomes especially important because these spending categories are highly susceptible to overinvestment, prestige-driven spending, or short-term market-share chasing that may undermine long-run profitability. A more effective board therefore improves profitability not simply by monitoring compliance, but by disciplining strategic choices and ensuring that scarce corporate resources are directed toward value-creating rather than manager-serving activities.

The Market Share Paradox: Building Governance, Squeezing Margins

The acceptance of H_5 (coefficient = -0.170 ; $p < 0.001$) raises what could be called the market share paradox: the same market position that drives governance development (positive H_2) also erodes profitability (negative H_5). This may seem contradictory, but these two effects actually operate through different mechanisms. The positive effect of market share on BES reflects the resources and external pressures that come with market leadership both of which encourage governance investments. The negative effect of market share on ROE reflects the actual costs of maintaining that position in the Indonesian consumer goods market: distributor discounts, price promotions, and advertising spending that continually eat into margins. Liu and Ngo (2014) found a similar paradox market leaders in highly competitive categories often achieve lower returns per unit than niche players, despite their much larger scale. What makes this finding particularly relevant from a governance perspective is its implications for the role of the

board. If a large market share comes at the cost of profitability, then the board's task is not to maximize market share for its own sake, but rather to help management find the optimal balance between maintaining market position and protecting margins. A board that understands this trade-off as reflected in higher BES is better able to steer management toward a more profitable differentiation strategy, rather than simply a market share race. This is the essence of Ujunwa (2020) and Ntim et al.'s (2017) argument about the strategic dimensions of the governance-marketing relationship.

CONCLUSION

This study provides sector-specific evidence on the association between board effectiveness, audit quality, marketing intensity, and profitability among Indonesian consumer goods firms during 2017–2024. Using a balanced panel of nine firms (72 firm-year observations) and a SUR framework, the results indicate that advertising intensity, market share, ROE, and leverage are positively associated with BES, while BES and Big 4 audit quality are positively associated with ROE. Market share, however, is negatively associated with ROE in the estimated profitability equation. These findings should be interpreted cautiously. The study is based on a small purposive sample, uses a composite governance measure, and relies on an observational design in which SUR improves efficiency but does not fully resolve endogeneity. Accordingly, the article does not claim broad causal confirmation of governance theory. Instead, it contributes bounded empirical evidence from one sector of an emerging market, showing that governance-related variables and profitability are empirically related in ways that merit further investigation. The practical implications are therefore provisional. For managers, the findings suggest that board effectiveness may be relevant not only as a compliance issue but also as part of a broader strategic and financial governance process. For investors and regulators, the results indicate that governance quality may contain useful information when assessing firm performance, although stronger identification strategies and larger samples are needed before drawing wider policy conclusions. Future research should extend the sample across sectors, refine the BES measurement process, and employ stronger identification strategies such as lag structures, instrumental variables, or dynamic panel methods.

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