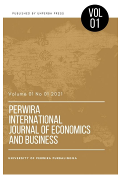

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THE EFFECT OF AUDIT COMITTE, INSTITUTIONAL OWNERSHIP, AND BOARD OF DIRECTORS ON THE FINANCIAL PERFOMANCE OF MANUFACTURING COMPANIES

By :

Muhammad Rivaldi[1], Aning Fitriana[2*], Shella Rizqi Amelia[3]

[1,2,3] Department of Accounting, Universitas Perwira Purbalingga, Indonesia
Corresponding author*: Aning Fitriana (aningfitriana@unperba.ac.id)

ABSTRACT

Financial performance is a key indicator used to evaluate a company's effectiveness in managing its resources and generating value for shareholders. The implementation of Good Corporate Governance (GCG) is widely recognized as an essential mechanism for enhancing corporate financial performance through strengthened monitoring and managerial oversight. This study aims to investigate the effect of the audit committee, institutional ownership, and the board of directors on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period. A quantitative research approach was employed using secondary data derived from annual reports. The sample comprises 72 manufacturing firms selected through purposive sampling, resulting in a total of 288 observations. Panel data regression analysis was conducted using EViews 12.The empirical results indicate that the audit committee and the board of directors have a positive and statistically significant effect on financial performance. In contrast, institutional ownership exhibits a negative but statistically insignificant effect on financial performance. These findings suggest that effective internal governance mechanisms, particularly through the audit committee and the strategic role of the board of directors, contribute to improving firm performance. However, institutional ownership has not yet demonstrated a significant influence in enhancing corporate financial outcomes.

Keywords: Financial Performance; Good Corporate Governance; Audit Committee; Institutional Ownership; Board of Directors

INTRODUCTION

Financial performance is widely recognized as one of the most important indicators for evaluating a company's success in managing its resources and achieving its strategic objectives. Strong financial performance reflects a firm's ability to generate profits, meet its financial obligations, and create sustainable value for shareholders. Consequently, information regarding corporate financial performance serves as a fundamental basis for investors, creditors, and other stakeholders when making economic decisions. In today's increasingly competitive business environment, companies are therefore expected to continuously improve their financial performance through effective and efficient corporate management.

The manufacturing sector represents one of the major contributors to Indonesia's economic development. Nevertheless, in recent years manufacturing firms have encountered numerous challenges, including global economic uncertainty, rising production costs, exchange rate fluctuations, and increasingly intense market competition. These circumstances require companies not only to enhance profitability but also to strengthen the implementation of Good Corporate Governance (GCG) practices. Effective corporate governance enables firms to improve managerial effectiveness, strengthen accountability, and maintain stakeholders' confidence.

Good Corporate Governance refers to a system that regulates the relationships among shareholders, management, the board of commissioners, the board of directors, and other stakeholders involved in corporate activities. The primary objective of GCG is to promote transparency, accountability, responsibility, independence, and fairness in corporate management. The importance of implementing corporate governance mechanisms is largely explained by Agency Theory proposed by Jensen and Meckling (1976), which argues that conflicts of interest may arise because company owners (principals) delegate decision-making authority to managers (agents). Differences in objectives and information asymmetry often encourage managers to pursue personal interests rather than maximizing shareholders' wealth. Consequently, effective monitoring mechanisms are required to minimize agency conflicts and ensure that corporate objectives are achieved efficiently.

Several corporate governance mechanisms have been extensively examined in relation to corporate financial performance, particularly the audit committee, institutional ownership, and the board of directors. The audit committee is responsible for overseeing financial reporting processes, evaluating the effectiveness of internal control systems, and ensuring compliance with applicable regulations, thereby enhancing the reliability of financial reporting. Institutional ownership functions as an external governance mechanism because institutional investors generally possess superior monitoring capabilities and stronger incentives to oversee managerial decisions. Meanwhile, the board of directors plays a strategic role in formulating corporate policies, managing operational activities, and making business decisions that directly influence financial performance.

Previous empirical studies have reported inconsistent findings regarding the relationship between corporate governance mechanisms and financial performance. Research conducted by Yusuf (2024) indicates that both the board of directors and institutional ownership positively influence financial performance. Similarly, Arimby and Dewi (2023) found that the audit committee significantly improves corporate financial performance. In contrast, Khoirunnisa and Karina (2021) reported that the influence of the audit committee varies across different industrial sectors. These inconsistent findings suggest that the effectiveness of corporate governance mechanisms remains context-dependent and therefore warrants further empirical investigation.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The selected observation period represents the post-pandemic recovery phase, during which companies were required to adapt their business strategies and governance practices to maintain financial stability and competitiveness. Furthermore, manufacturing firms generally operate in complex business environments that require effective governance mechanisms to improve operational efficiency and support high-quality strategic decision-making.

Based on the foregoing discussion, this study aims to examine the effects of the audit committee, institutional ownership, and the board of directors on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange between 2021 and 2024. The findings are expected to enrich the literature on corporate governance and financial performance while providing practical insights for corporate managers and investors seeking to strengthen governance quality and enhance corporate performance.

LITERATURE REVIEW

This study is grounded in Agency Theory proposed by Jensen and Meckling (1976), which explains that the relationship between principals (shareholders) and agents (management) is prone to conflict due to differences in objectives and information asymmetry. Managers typically possess more complete information regarding the firm's actual conditions compared to shareholders, which may create opportunities for managerial actions that prioritize personal interests over those of the owners. To mitigate this conflict, firms implement Good Corporate Governance (GCG) mechanisms as a monitoring system aimed at enhancing transparency, accountability, and the effectiveness of corporate management. The implementation of effective GCG is expected to improve decision-making quality, thereby contributing to better financial performance.

One of the key mechanisms of Good Corporate Governance is the audit committee. The audit committee is responsible for assisting the board of commissioners in overseeing the financial reporting process, evaluating the effectiveness of internal control systems, and ensuring compliance with applicable regulations. An independent and competent audit committee can enhance the quality of financial reporting and reduce the likelihood of financial statement manipulation. From the perspective of Agency Theory, the audit committee serves as a monitoring mechanism that reduces agency costs by strengthening oversight of managerial actions. Previous research by Sefira et al. (2023) found that the audit committee has a positive effect on financial performance through improved internal control effectiveness. Similarly, Alkebsee et al. (2021) reported that an effective audit committee enhances the quality of financial decision-making, which ultimately leads to higher firm profitability. Based on the theoretical framework and prior empirical evidence, the first hypothesis is formulated as follows:

H1: The audit committee has a positive effect on firm financial performance.

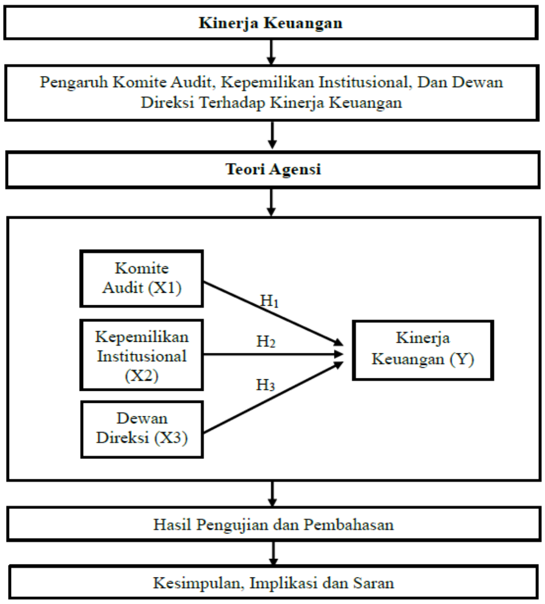
In addition to the audit committee, institutional ownership is also an important corporate governance mechanism that functions as an external monitoring system over management. Institutional ownership refers to the proportion of company shares held by financial institutions, investment firms, pension funds, and other institutional investors. Institutional investors generally possess stronger monitoring capabilities due to their resources, experience, and long-term investment orientation. According to Agency Theory, a higher level of institutional ownership enhances monitoring effectiveness, thereby reducing opportunistic managerial behavior and improving corporate efficiency. Empirical evidence from Subiyanto and Amanah (2020) indicates that institutional ownership positively affects Return on Assets (ROA). Astuti (2021) also found that institutional ownership improves the quality of managerial decision-making through more effective monitoring. However, some studies suggest mixed results, indicating that institutional investors do not always actively perform monitoring functions, which leads to inconsistent findings regarding its impact on financial performance. Based on this discussion, the second hypothesis is formulated as follows:

H2: Institutional ownership has a positive effect on firm financial performance.

Another corporate governance mechanism is the board of directors. The board of directors is responsible for formulating corporate strategies, managing organizational resources, and making both operational and strategic decisions to achieve company objectives. A board with adequate size, competence, and professional expertise is expected to enhance corporate effectiveness and improve financial performance. Within the Agency Theory framework, the board of directors functions as an internal governance mechanism that directs managerial actions in line with shareholder interests. Fitriyani (2021) found that the board of directors positively influences firm profitability by improving the quality of strategic decision-making. Similarly, Lidyah (2022) concluded that a professional board enhances transparency, accountability, and operational efficiency, which ultimately contributes to improved financial performance. Based on theoretical arguments and prior studies, the third hypothesis is formulated as follows:

H3: The board of directors has a positive effect on firm financial performance.

Based on Agency Theory and previous empirical findings, this study examines the effect of three Good Corporate Governance mechanisms—audit committee, institutional ownership, and board of directors—on the financial performance of manufacturing firms listed on the Indonesia Stock Exchange during the 2021–2024 period. These governance mechanisms are expected to reduce agency conflicts by strengthening supervision, improving transparency, and enhancing accountability in corporate management. Consequently, they are anticipated to contribute to improved financial decision-making and better firm performance. The conceptual relationship among the variables in this study is presented in the following conceptual framework.



Picture 1. The frameWork Research

RESEARCH METHODS

This study adopts a quantitative approach using an explanatory research design, which aims to examine the effect of the audit committee, institutional ownership, and board of directors on firm financial performance. The object of this research consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The data used in this study are secondary data obtained from annual reports and financial statements published through the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as the official websites of the respective companies.

The population of this study includes all manufacturing firms listed on the Indonesia Stock Exchange over the 2021–2024 period. The sampling technique employed is purposive sampling, which involves selecting samples based on specific criteria aligned with the research objectives. The criteria used in this study are as follows: (1) manufacturing companies consistently listed on the Indonesia Stock Exchange during the 2021–2024 period; (2) companies that published complete annual reports and financial statements during the observation period; (3) firms with complete data required for all research variables; and (4) companies presenting financial statements in Indonesian Rupiah. Based on these criteria, a total of 72 companies were selected as the research sample, resulting in 288 observations.

Data collection techniques were carried out using documentation and literature study methods. The documentation method involved collecting annual reports and financial statements from the selected companies. Meanwhile, the literature study was conducted by reviewing various academic sources, including books, scholarly journals, prior research studies, and relevant regulations related to Good Corporate Governance and financial performance.

The dependent variable in this study is financial performance, proxied by Return on Equity (ROE), which measures the company’s ability to generate net income relative to shareholders’ equity. The independent variables consist of the audit committee, measured by the number of audit committee members; institutional ownership, measured by the percentage of shares owned by institutional investors relative to total outstanding shares; and the board of directors, measured by the number of board members within the company.

This section presents the research design used in the study, including the type of research, research object, data collection techniques, and data analysis methods

Table 1. Operational Definition of Variables

Variable	Indicator	Measurement
Financial Performance	Return on Equity (ROE)	ROE = (Net Income After Tax

Variable	Indicator	Measurement
(Y)		/ Total Equity) × 100%
Audit Committee (X1)	Number of Audit Committee Members	Total number of audit committee members
Institutional Ownership (X2)	Percentage of Institutional Shareholding	(Institutional Shares / Total Outstanding Shares) × 100%
Board of Directors (X3)	Number of Board Members	Total number of directors

Data analysis in this study is conducted using panel data regression with the assistance of EViews 12 software. The analytical procedures include descriptive statistical analysis and model selection for panel data regression through the Chow test, Hausman test, and Lagrange Multiplier (LM) test to determine the most appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

Furthermore, hypothesis testing is performed using the t-test to examine the partial effect of each independent variable on financial performance, the F-test to assess the simultaneous effect of all independent variables, and the coefficient of determination (Adjusted R^2) to evaluate the extent to which the model explains variations in firm financial performance

RESULTS

1. **Descriptive Statistics**

Descriptive statistics are used to provide an overview of the characteristics of the research data, including the minimum value, maximum value, mean, and standard deviation of each variable. The results of the descriptive statistical analysis are presented in Table 2.

Table 2 Descriptive Statistics Results

Variable	Mean	Minimum	Maximum	Std. Deviation
Financial Performance (ROE)	0.113	0.000	0.530	0.091
Audit Committee	3.088	3.000	4.000	0.283
Institutional Ownership	0.708	0.070	1.961	0.220
Board of Directors	4.631	2.000	12.000	1.950

Source: Processed data using EViews 12.

Based on Table 2, the descriptive analysis can be interpreted as follows:

1. The results indicate that the lowest value of financial performance during the observation period is 0.000, which occurred in PT Wijaya Karya Beton Tbk. (WTON) in 2022. This suggests that the company was unable to generate profit from its equity in that period. Meanwhile, the highest value of 0.530 was recorded by PT Sentra Food Indonesia Tbk. (FOOD) in 2022, indicating that the company was able to effectively utilize its equity to generate higher profits compared to other firms in the sample. The average ROE of manufacturing firms during the 2021–2024 period is 0.113, with a standard deviation of 0.091. This implies that, in general, manufacturing companies listed on the Indonesia Stock Exchange

were able to generate returns from shareholders' equity, although there is considerable variation among firms, reflecting differences in operational efficiency and financial management strategies.

2. The audit committee variable shows a minimum value of 3.00, observed in several firms including PT Aneka Gas Industri Tbk. (AGII), while the maximum value of 4.00 is found in companies such as PT Solusi Bangun Indonesia Tbk. (SMCB). The standard deviation of 0.283 indicates relatively low variation in the size of audit committees across manufacturing firms. This suggests that most companies maintain a similar number of audit committee members, generally in accordance with the minimum requirements of corporate governance guidelines, ensuring a consistent oversight function over management practices.
3. The institutional ownership variable shows a minimum value of 0.070 in PT Indonesian Tobacco Tbk. (ITIC), while the maximum value of 1.961 is recorded in PT Indocement Tunggal Prakarsa Tbk. (INTP) during the 2023–2024 period. The average institutional ownership of 0.708 indicates that a substantial proportion of shares in manufacturing firms is held by institutional investors. This suggests that, in general, listed manufacturing companies are subject to strong external monitoring, as institutional investors typically possess greater incentives and capabilities to supervise managerial performance and encourage improved corporate outcomes.
4. The board of directors variable shows a minimum value of 2.00 in PT Selaras Citra Nusantara Perkasa Tbk. (SCNP), while the maximum value of 12.00 is observed in PT Indofood CBP Sukses Makmur Tbk. (ICBP). The average number of board members is 4.631, indicating that most manufacturing firms maintain a relatively balanced board structure. Although there are variations across firms, the majority tend to adopt a moderately sized board that is considered sufficient to perform both supervisory and strategic decision-making functions effectively, thereby supporting overall firm performance.

2. Panel Data Regression Model Selection

Prior to hypothesis testing, the most appropriate panel data regression model was determined using the Chow test and Hausman test.

Table 3. Panel Data Model Selection Results

Test	**Probability Value**	**Decision**
Chow Test	0.000	Fixed Effect Model
Hausman Test	0.046	Fixed Effect Model

Source: EViews 12 output.

Based on the Chow test results, the probability value of 0.000 (< 0.05) indicates that the Fixed Effect Model (FEM) is the most appropriate model compared to the Common Effect Model. Furthermore, the Hausman test result shows a probability value of 0.046 (< 0.05), confirming that the Fixed Effect Model is the most suitable estimation approach for this study.

In addition, the multicollinearity test results indicate that all correlation values among independent variables are below 0.90, suggesting that multicollinearity is not present in the model. The heteroskedasticity test also shows probability values greater than 0.05, indicating that the regression model does not suffer from heteroskedasticity issues. Therefore, the model satisfies the classical assumption requirements for hypothesis testing.

3. **Hypothesis Testing Results**

Hypothesis testing was conducted using panel data regression analysis with the Fixed Effect Model (FEM). The results are presented in Table 4.

Table 4. Regression Results (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	0.539	0.172	3.122	0.002
Audit Committee	-0.121	0.056	-2.173	0.031
Institutional Ownership	0.032	0.032	1.000	0.319
Board of Directors	-0.016	0.005	-3.227	0.001

Source: EViews 12 output.

The regression results show that the Adjusted R^2 value is 0.450, indicating that 45.0% of the variation in financial performance can be explained by the audit committee, institutional ownership, and board of directors. The remaining 55.0% is explained by other factors outside the model.

Furthermore, the F-statistic probability value of 0.000 suggests that all independent variables jointly have a significant effect on financial performance. This indicates that the model is statistically significant and suitable for explaining variations in firm financial performance.

Discussion

Effect of the Audit Committee on Financial Performance

The empirical results indicate that the audit committee has a significant effect on firm financial performance, with a probability value of 0.031. This finding suggests that the presence of an audit committee enhances the effectiveness of supervision over financial reporting and internal control systems within the company. Accordingly, the monitoring function performed by the audit committee helps reduce agency conflicts and improves the overall quality of corporate governance. As oversight becomes more effective, financial reporting reliability increases, which ultimately contributes to better financial performance.

Effect of Institutional Ownership on Financial Performance

The results show that institutional ownership does not have a significant effect on financial performance. This finding implies that a higher proportion of institutional shareholding does not necessarily translate into more effective monitoring of managerial activities. It suggests that institutional investors are not always actively involved in corporate decision-making or supervisory processes. Consequently, their presence alone may not be sufficient to influence improvements in firm performance, particularly when their monitoring role is passive.

Effect of the Board of Directors on Financial Performance

The board of directors is found to have a significant effect on firm financial performance. This indicates that the board plays a crucial role in formulating corporate strategies, managing organizational resources, and overseeing operational activities. When the board of directors performs its duties effectively, the quality of managerial decision-making improves, leading to more efficient operations and better financial outcomes. Therefore, an effective board structure contributes positively to enhancing overall firm performance.

CONCLUSIONS AND SUGGESTIONS

Conclusion

This study aims to examine the effect of the audit committee, institutional ownership, and board of directors on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Based on the results of panel data regression analysis and the discussion presented, the following conclusions can be drawn:

1. The audit committee has a significant effect on firm financial performance. This finding indicates that the audit committee, as one of the Good Corporate Governance mechanisms, plays an important role in enhancing the effectiveness of supervision over financial reporting processes and internal control systems, thereby contributing to improved financial performance.
2. Institutional ownership does not have a significant effect on firm financial performance. This result suggests that a higher proportion of institutional shareholding does not necessarily lead to more effective monitoring of management, and therefore does not significantly influence financial performance.
3. The board of directors has a significant effect on firm financial performance. This implies that the more effective the board of directors is in performing its managerial and strategic decision-making functions, the better the firm's financial performance.

In addition, the results also indicate that, simultaneously, the audit committee, institutional ownership, and board of directors have a significant effect on the financial performance of manufacturing firms listed on the Indonesia Stock Exchange during the 2021–2024 period.

Recommendations

Based on the findings of this study, several recommendations are proposed:

1. For companies, it is recommended to continuously improve the effectiveness of Good Corporate Governance implementation, particularly by optimizing the roles of the audit committee and board of directors in supervision and strategic decision-making, in order to enhance financial performance.
2. For investors, the results of this study can serve as an additional consideration in investment decision-making by taking into account not only financial indicators but also the quality of corporate governance.
3. For future researchers, it is recommended to expand the research scope to other industry sectors, extend the observation period, and include additional variables that may influence financial performance, such as independent commissioners, firm size, leverage, profitability, and managerial ownership, in order to obtain more comprehensive results.

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