Risk Management as a Mediating Variable in the Influence of the Board of Directors on Financial Performance

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ABSTRACT

Companies often use loans or bonds to finance their operations, so effective debt management is important to maintain financial stability and prevent adverse impacts such as asset inclusion. The purpose of this study is to analyze the effect of board direction on financial performance with risk management as a mediating variable in the food and beverage subsector on the Indonesia Stock Exchange (IDX). This study reveals the role of board directors in improving financial performance in the Indonesian food and beverage (F&B) manufacturing sector, with risk management as a mediating variable. Using a quantitative research approach, data were collected from F&B companies listed on the Indonesia Stock Exchange from 2019 to 2023 using purposive sampling. Panel data regression analysis was conducted using EViews 9 software to examine the relationship between board characteristics, management risk, and financial performance, as measured by Return on Assets (ROA). The results showed that board size, board ownership, CEO tenure, CEO duality, and board independence showed weak or insignificant correlations with financial performance. Furthermore, risk management does not significantly mediate this relationship, suggesting that other corporate governance factors and management strategies may play a more dominant role in shaping financial outcomes.

Keywords*: Board of Directors, Financial Performance, Risk Management, ROA, Corporate Governance*

ABSTRAK

Perusahaan sering kali memanfaatkan pinjaman atau obligasi untuk membiayai operasinya, sehingga manajemen utang yang efektif penting untuk menjaga stabilitas keuangan dan mencegah dampak buruk seperti penyitaan aset. Tujuan dari penelitian ini untuk menganalisis pengaruh dewan direksi terhadap kinerja keuangan dengan manajemen risiko sebagai varibel mediasi pada subsector makanan dan minuman di bursa efek Indonesia (BEI). Studi ini menyelidiki peran direktur dewan dalam meningkatkan kinerja keuangan di sektor manufaktur makanan dan minuman (F&B) Indonesia, dengan manajemen risiko sebagai variabel mediasi. Dengan menggunakan pendekatan riset kuantitatif, data dikumpulkan dari perusahaan F&B yang terdaftar di Bursa Efek Indonesia dari tahun 2019 hingga 2023 menggunakan purposive sampling. Analisis regresi data panel dilakukan menggunakan perangkat lunak EViews 9 untuk memeriksa hubungan antara karakteristik dewan, risiko manajemen, dan kinerja keuangan, yang diukur dengan Return on Assets (ROA). Hasil penelitian menunjukkan bahwa ukuran dewan direksi, kepemilikan dewan direksi, masa jabatan CEO, dualitas CEO, dan independensi dewan direksi menunjukkan korelasi yang lemah atau tidak signifikan dengan kinerja keuangan. Lebih jauh, manajemen risiko tidak secara signifikan memediasi hubungan ini, yang menunjukkan bahwa faktor tata kelola perusahaan dan manajemen strategis lainnya mungkin memainkan peran yang lebih dominan dalam membentuk hasil keuangan.

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***Kata kunci**: Dewan Direksi, Kinerja Keuangan, Manajemen Risiko, ROA, Tata Kelola Perusahaan, Bursa Efek Indonesia*

INTRODUCTION

Financial performance refers to how effectively a company utilizes its financial resources to generate profits and maintain financial stability, which is crucial for the long-term growth and sustainability of the business (Sofyan & Alamsyah, 2021; Putri, 2022). It also indicates how efficiently a company manages its resources, which, when stable, can attract investors. Return on assets (ROA) is a widely used metric for evaluating financial performance (Matar & Eneizan, 2018; Suhardono et al., 2023). Corporate governance plays a significant role in shaping the success and performance of a company by establishing transparency, accountability, independence, and fairness in its management. Effective governance maximizes value for shareholders and stakeholders, thereby improving overall business performance (Fisabilillah et al., 2020; Alabdullah, 2023). Given the challenges posed by globalization and a rapidly evolving business environment, effective corporate governance has become even more critical, as companies must consider various external factors in their decision-making.

Board size is an essential factor in ensuring effective governance. A larger board can improve decision-making through better task division and stronger external networks, which enhance financial performance. Research by Warningtias & Musdolifah (2016) and Mattiara et al. (2020) suggests a positive relationship between board size and financial performance. Moreover, a well-structured governance system can minimize irregularities, leading to better financial outcomes (Assenga et al., 2018; Hidayat et al., 2024). Board ownership, or the percentage of company shares owned by board members, is another crucial governance factor influencing financial performance. When board members hold shares, their interests align with those of shareholders, leading to more diligent oversight. Substantial board ownership has been linked to improved financial performance, although excessive ownership may cause power imbalances (Setiyawan et al., 2023). CEO tenure also plays a role in a company's financial performance. A longer CEO tenure is associated with greater loyalty and experience, which can positively impact decision-making and company value (Juliawaty & Astuti, 2019; Sheikh, 2018). Studies by Hamidlal & Harymawan (2021); Emestine & Setyaningrum (2019) further support the positive relationship between CEO tenure and company performance.

Board independence is another critical governance factor. Independent directors, who are not involved in daily operations, provide objective oversight that can enhance financial performance. Research by Outher (2021) has found a link between board independence and higher firm value. However, some studies, such as those by Andreas Rudiwantoro (2022), suggest that board independence may not always influence financial performance. Firm size is another determinant of financial performance. Larger companies often enjoy competitive advantages, such as market power, economies of scale, and the ability to set higher product prices, all of which contribute to improved profitability. Research by Azzahra & Wibowo (2019); Ayuba et al. (2019) supports the idea that larger companies perform better financially due to their stability and cost advantages. Larger firms tend to attract more investors, who perceive them as more stable, thus driving up share prices (Nguyen & Huynh, 2023). Company age also affects financial performance, as older companies generally have more experience and have overcome various challenges, positioning them to make better decisions that lead to superior financial outcomes. Research by Rousilita Suhendah (2020); Agustia & Suryani (2018) indicates a positive correlation between firm age and financial performance, with older companies benefiting from a competitive edge and greater resilience. Juliana & Melisa (2019) also confirm that firm age significantly influences financial performance.

Debt management, especially long-term debt, is a critical factor affecting financial performance. Companies often use loans or bonds to finance operations, and effective debt management is essential for maintaining financial stability and avoiding negative consequences such as asset forfeiture (Wijaya & Darmawati, 2023). Research by Amin & Cek (2023) shows that excessive long-term debt can harm financial performance. Risk management is also integral to financial performance. A strong risk management system, particularly Enterprise Risk Management (ERM), helps reduce corporate risks and improve decision-making, leading to better financial outcomes (Rehman et al., 2021; Marnilin, 2023). Companies with advanced ERM systems tend to perform better because they reduce costs related to risks and improve capital returns. The current study, inspired by Musallam's (2024) research on the impact of board directors on financial performance in Palestine, aims to examine this topic in the context of

Indonesia, focusing on food and beverage manufacturing companies. Specifically, it will explore how board directors can improve financial performance in Indonesia, with risk management as a mediating variable. This research contributes to the ongoing exploration of governance practices and their influence on corporate financial performance.

LITERATURE REVIEW

Financial performance is a critical tool used to assess, evaluate, and offer solutions regarding a company's financial status over a given period (Waddock & Graves, 1997). Companies aim to improve their financial performance to support their operations and remain competitive in the business world. Enhanced financial performance plays a key role in attracting investors, as it is often demonstrated through the company's financial statements (Surroca et al., 2010). These statements reflect the company's ability to generate revenue, manage expenses, and maintain profitability over time. Strong financial performance signals the company's operational efficiency, showcasing its capacity to handle financial challenges and sustain growth. As noted by Tudose et al. (2022), the ability to consistently manage costs and generate revenue is vital for the company's long-term success and appeal to potential investors. Ultimately, good financial performance reflects not only short-term success but also the company's ability to endure and grow in a dynamic, competitive business environment.

The Board of Directors is a critical component of corporate governance, responsible for overseeing and making strategic decisions for a company (Boivie et al., 2021; Moridu, 2023). It plays a pivotal role in guiding the company's direction, particularly in areas such as risk management and long-term business planning. The board ensures that the company navigates challenges effectively while pursuing sustainable growth. According to Hutahayan (2020), the presence of a board of directors significantly impacts a company's financial performance, particularly in manufacturing industries where operational efficiency and technological innovation are essential. The board's leadership and decision-making capabilities are crucial for minimizing challenges that could hinder performance and ensuring the company remains competitive in the marketplace (Rindova, 1999).

Risk management plays a crucial role in the governance structure of companies, as it directly influences financial performance (Chairani & Siregar, 2021). The primary goal of risk management is to ensure that each board member takes responsibility for identifying and minimizing risks that could negatively impact the company's financial outcomes (Hamid & Purbawangsa, 2022). Effective risk management helps mitigate potential losses, enhance decision-making, and improve operational efficiency, ultimately contributing to better financial performance. In a well-managed risk environment, companies can better navigate uncertainties and potential disruptions in the market or within their internal operations. Financial performance is a key indicator of how effectively a company utilizes its resources to generate profits. By addressing risks through strategic planning and mitigation practices, companies can improve their financial stability, maintain competitiveness, and safeguard long-term profitability. In this context, risk management is not just about preventing losses but also about positioning the company for growth and sustainability in an increasingly complex business landscape. Proper risk management ensures that companies can manage and take advantage of opportunities while minimizing the adverse effects of unforeseen events. This contributes to maintaining strong financial performance and overall business success (Rehman et al., 2021; Sudradjat, 2022).

METHODS

This study employed a quantitative research method. Purposive sampling was used as the sampling method, with selection based on specific objectives to ensure that the chosen companies met the predetermined criteria (Etikan et al., 2016). The sample consisted of F&B manufacturing companies listed on the Indonesia Stock Exchange for the period 2019-2023, with complete data relevant to the study variables and good financial performance during that period. Data collection was conducted using secondary data, obtained from the Indonesia Stock Exchange website and the official websites of the selected companies. The study utilized quantitative data, derived from financial statements and annual reports, in the form of financial calculations. The data analysis method applied was panel data regression, aimed at measuring and testing the impact of independent variables—including board size, board ownership, CEO tenure, CEO duality, board independence, and management risk as an intervening variable—on the dependent variable, financial performance, which was measured by Return on Assets (ROA). The analysis was conducted using EViews 9 software and included descriptive statistics, classical assumption tests, and hypothesis testing to assess the strength and nature of the relationships between the variables.

RESULTS

The Residual Normality Test is a statistical test used to check whether the residuals from a regression model or other data analysis follow a normal distribution. Residuals are the differences between the values predicted by the model and the actual values observed in the data. This test is important because many statistical models, especially linear regression, assume that their residuals follow a normal distribution.

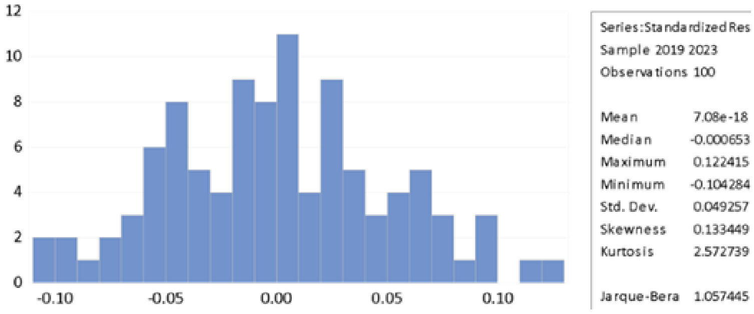

Figure 1. Residual Normality Test Results

The Jarque-Bera value of 1.057445 with a p-value of 0.589357 indicates that the residuals in the regression model are normally distributed. Since the p-value is greater than 0.05, there is insufficient evidence to reject the null hypothesis that the residuals are normally distributed. Therefore, the assumption of normality of residuals is acceptable, which suggests that the regression model meets one of the basic assumptions in regression analysis.

Table 1. Correlation Test Results

	ROA	BS	BO	BIND	FSIZE	FAGE	DEBT
ROA	1	-0.08506	-0.02254	0.00322	0.34314	0.33595	0.03329
BS	-0.08506	1	-0.415	-0.07402	-0.09081	0.20214	0.14775
BO	-0.02254	-0.415	1	-0.17457	0.11201	-0.05723	-0.16803
BIND	0.00322	-0.07402	-0.17457	1	0.04541	0.10766	-0.15018
FSIZE	0.34314	-0.09081	0.11201	0.04541	1	0.79298	0.05253
FAGE	0.33595	0.20214	-0.05723	0.10766	0.79298	1	0.00218
DEBT	0.03329	0.14775	-0.16803	-0.15018	0.05253	0.00218	1

The Pearson correlation test results indicate various relationships between the tested variables. ROA (Return on Assets) has a significant positive correlation with FSIZE (Firm Size) at 0.34314, suggesting that larger firms tend to have higher returns on assets. It also shows a positive correlation with FAGE (Firm Age) at 0.33595, indicating that older companies generally achieve better returns. BS (Board Size) negatively correlates with BO (Board Ownership) at -0.415, meaning that larger boards tend to have lower ownership stakes in the company, while BS positively correlates with FAGE at 0.20214, implying that older companies tend to have larger boards. BO negatively correlates with both BS at -0.415 and DEBT (Debt Ratio) at -0.16803, showing that higher board ownership is associated with lower debt levels. BIND (Board Independence) has a very weak positive correlation with FSIZE at 0.04541, suggesting a limited impact of firm size on board independence. FSIZE exhibits a moderately strong positive correlation with FAGE at 0.79298, meaning that larger firms are generally older, but it only weakly correlates with DEBT at 0.05253, indicating minimal influence of firm size on the debt ratio. FAGE has an extremely weak correlation with DEBT at 0.00218, signifying that company age does not significantly impact debt levels. Lastly, DEBT has a small positive correlation with BS at 0.14775 and a negative correlation with BO at -0.16803, implying that firms with higher debt levels tend to have smaller boards and lower board ownership.

The Likelihood Ratio value of 57.87370 with a p-value of 0.0001 indicates that the null hypothesis is rejected at the 1% significance level. This suggests a heteroscedasticity problem, where the residual variance is not constant. The lack of homoscedasticity may affect the efficiency of the coefficient estimates in the model.

Table 2. Autocorrelation Test Results

Root MSE	0.049010	**R-squared**	0.152771
Mean dependent var	0.083909	**Adjusted R-squared**	0.088308
S.D. dependent var	0.053514	**S.E. of regression**	0.051096
Akaike info criterion	-3.033589	**Sum squared resid**	0.240197
Schwarz criterion	-2.825175	**Log likelihood**	158.5295
Hannan-Quinn criter.	-2.949240	**F-statistic**	2.369894
Durbin-Watson stat	0.691961	**Prob(F-statistic)**	0.028436

The Root MSE (Mean Squared Error) value of 0.049010 represents the average deviation of the residuals in the model, where a smaller value indicates better predictive accuracy. The R-squared value of 0.152771 suggests that approximately 15.28% of the variation in the dependent variable is explained by the independent variables, meaning the model does not fully capture the data's variability. The mean dependent variable value of 0.083909 represents the average of the dependent variables used in the analysis. The Adjusted R-squared value of 0.088308, slightly lower than R-squared, indicates that even after adjusting for the number of variables, the model is not highly effective in explaining data variation. The standard deviation of the dependent variable (S.D. dependent var) at 0.053514 shows the level of dispersion in the dependent variable, while the standard error of regression (S.E. of regression) at 0.051096 suggests the average error in the regression model, which is slightly lower than the Root MSE, indicating relatively good prediction capability. The Akaike Information Criterion (AIC) value of -3.033589, the Schwarz Criterion (SC) value of -2.825175, and the Hannan-Quinn Criterion (HQ) value of -2.949240 all serve as measures for model selection, with lower values indicating a better model fit while balancing complexity. The sum of squared residuals of 0.240197 illustrates how well the model predicts observed values relative to the true values. The log-likelihood value of 158.5295 indicates how well the model fits the data, with a higher value suggesting a better fit. The F-statistic value of 2.369894 suggests the model is significant in explaining data variation, though further comparison with the critical F value is necessary to confirm significance. The Durbin-Watson statistic of 0.691961 suggests possible autocorrelation in the residuals, as an ideal value should be close to 2. Lastly, the Prob(F-statistic) value of 0.028436 confirms that the model is significant at the 5% level, indicating that the independent variables collectively have a significant impact on the dependent variable.

Table 3. Panel Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.078215	0.019112	4.089124	0.0001
BS	-0.012105	0.003017	-4.001916	0.0002
BO	-0.035472	0.041532	-0.852245	0.3968
BIND	-0.002947	0.005139	-0.574846	0.5679
FSIZE	0.000402	0.000517	0.777852	0.4371
FAGE	0.000901	0.000047	1.917356	0.0571
DEBT	0.000015	0.000051	0.291045	0.7713

The regression results indicate that the constant (C) has a positive coefficient of 0.078215, with a t-statistic of 4.089124 and a probability of 0.0001, suggesting a significant influence of unaccounted factors on the dependent variable. BS (Board Size) has a negative coefficient of -0.012105, with a t-statistic of -4.001916 and a probability of 0.0002, indicating a strong and significant negative relationship with the dependent variable, meaning that a larger board size reduces its impact. BO (Board Ownership) shows a negative coefficient of -0.035472, with a t-statistic of -0.852245 and a probability of 0.3968, suggesting no significant effect on the dependent variable due to the probability exceeding 0.05. Similarly, BIND (Board Independence) has a negative coefficient of -0.002947, with a t-statistic of -0.574846 and a probability of 0.5679, also indicating no significant impact. FSIZE (Firm Size) has a positive coefficient of 0.000402, with a t-statistic of 0.777852 and a probability of 0.4371, showing an insignificant relationship with the dependent variable. FAGE (Firm Age) has a positive coefficient of 0.000901, with a t-statistic of 1.917356 and a probability of 0.0571, suggesting a potential positive influence on the dependent variable, though it is not fully significant at the 5% level. Lastly, DEBT has an extremely small coefficient of 0.00001, with a t-statistic of 0.291045 and a probability of 0.7713, indicating no significant effect on the dependent variable.

DISCUSSION

Board Size (BS) has been found to have a very weak negative correlation with financial performance, with a value of -0.085. This suggests that the size of the board does not significantly influence the financial performance of companies in this sector, which is consistent with previous research. While board size might be associated with better supervision and strategic decisions in some contexts, the study indicates that other internal factors, such as operational efficiency, may have a more pronounced impact on financial performance in the F&B industry. Board Ownership (BO) shows a very weak and insignificant correlation with financial performance, with a correlation value of -0.0225. Although board ownership can influence corporate oversight, the data reveal that it does not significantly affect financial performance in this context. External factors, like market conditions and operational decisions, seem to play a more crucial role in determining a company's financial results, aligning with previous studies by Musallam (2024).

Although the majority of CEOs in the sample were long-serving, they did not have a significant impact on financial performance. While longer tenure is often associated with leadership stability and better long-term planning, the study found that CEO tenure was not significantly correlated with ROA. Other factors, such as market dynamics, product innovation, and the ability to adapt to changing consumer trends, likely outweigh the influence of CEO tenure on financial results. This finding is consistent with Wati & Ricky (2021). Board Independence (BIND) was also shown to have a weak positive correlation with financial performance. Most companies in the sample showed low levels of board independence, indicating that board independence, although considered a hallmark of good corporate governance, does not have a strong impact on financial performance in the F&B sector. Other elements, such as business strategy and executive leadership, are more influential in driving financial performa (Suryandani, 2022).

Firm Size (FSIZE) exhibits a weak positive correlation with financial performance (0.3431), suggesting that larger companies tend to perform better financially. Larger firms have better access to capital, resources, distribution networks, and technology, all of which support operational efficiency. Moreover, larger firms are better equipped to handle market fluctuations and economic changes, thus improving their financial stability and profitability. Despite its weak correlation, this finding is consistent with Rousilita Suhendah (2020), who suggests that firm size provides a competitive advantage in the F&B sector. Firm Age (FAGE) has a significant positive correlation with ROA (0.3359). Older companies tend to have more experience and stability, which can enhance their ability to manage financial performance. The experience gained over time allows these companies to better understand market dynamics, consumer behavior, and economic challenges, helping them formulate more effective strategies. Additionally, older firms often have established reputations and strong relationships with stakeholders, facilitating access to resources and capital. These companies are better positioned to manage risks and capitalize on market opportunities, as confirmed by Hanafi et al. (2021).

Debt has a very weak positive correlation with financial performance (0.0333), suggesting that debt has a limited effect on financial outcomes in the sample. Although high levels of debt can strain liquidity and solvency, companies in this sample appear to have well-managed debt structures that do not significantly impact financial performance. Low or well-controlled debt levels may not provide substantial benefits for growth or investment, which could affect a company's profitability. This finding aligns with Musallam (2023), who suggests that the impact of debt is often limited by managerial strategies and external market conditions. Risk Management (ERM), despite being a critical factor in reducing uncertainty, does not significantly influence financial performance in this study. Most companies in the sample implement risk management practices similarly, leading to insufficient variation to measure its impact. Although risk management helps improve stability, other factors, such as operational strategies and managerial decisions, seem to influence financial performance more directly. This result is consistent with Riyani et al. (2022), who argue that operational decisions have a stronger impact than risk management. Furthermore, Board Size, Board Ownership, CEO Tenure, and Board Independence do not show significant effects on financial performance when mediated by risk management. In the case of Board Size, risk management did not exhibit any significant mediation effect, likely due to the uniformity of risk management practices across the companies in the sample. The same was true for Board Ownership and CEO Tenure. These variables do not vary sufficiently to demonstrate significant effects on financial performance through risk management. This suggests that other factors, such as corporate strategy and leadership abilities, play a more substantial role in determining financial outcomes. Lastly, Board Independence, despite being expected to improve oversight and financial performance, does not show a significant effect when mediated by risk management. The low level of board independence in many companies in the sample limits its potential influence on financial decisions and performance. Additionally, the uniformity of risk management practices prevents the mediation effect from being significant, suggesting that other corporate governance factors may be more influential in shaping financial performance.

CONCLUSION

This study analyzes the impact of various independent variables on financial performance, measured by Return on Assets (ROA), in 20 food and beverage companies listed on the Indonesia Stock Exchange from 2019 to 2023. The independent variables include board size, board ownership, CEO tenure, CEO duality, and board independence, with control variables such as firm size, firm age, and debt. The study also examines the mediating role of risk management. The findings show that board size positively impacts financial performance, as larger boards provide better oversight and decision-making. However, excessively large boards may face inefficiencies. Board ownership does not significantly affect financial performance, suggesting that higher ownership does not always improve results. CEO tenure positively influences financial performance, with experienced CEOs better equipped to navigate challenges and drive long-term growth. Board independence also has a positive effect, as independent members offer unbiased oversight and improve corporate governance. Risk management plays a mediating role, enhancing the positive effects of board size, CEO tenure, and board independence on financial performance. However, it does not mediate the relationship between board ownership and CEO duality with financial performance. Firm size and firm age are positively associated with financial performance. Larger firms benefit from economies of scale, and older firms have established business models and customer bases. Debt, on the other hand, negatively impacts financial performance due to the financial risks and interest expenses associated with high debt levels.

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