

## AUDIT COMMITTEE CAPABILITY, INDEPENDENT COMMISSIONERS, AND FINANCIAL PERFORMANCE: DOES CORPORATE GREENWASHING IMPAIR OVERSIGHT QUALITY?

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### ABSTRACT

*This study aims to examine the influence of independent directors and audit committee capabilities on financial performance, and to analyse the role of corporate greenwashing (ESG decoupling) as a moderating variable in this relationship. Using an explanatory quantitative approach with purposive sampling, the study sample comprises 50 listed companies in the Consumer Non-Cyclicals sector on the Indonesia Stock Exchange (IDX) over the period 2021–2025, resulting in a total of 250 firm-year observations. Secondary data, comprising financial and governance reports, were extracted from the IDX, whilst ESG scores were obtained from the Refinitiv Eikon and Bloomberg databases, which were subsequently analysed using Moderated Regression Analysis (MRA) via SPSS software. The results of the empirical testing indicate that, in part, Independent Commissioners and Audit Committee Capability have a significant positive effect on Financial Performance (Return on Assets), confirming the effectiveness of governance oversight functions in mitigating agency costs. However, the interaction model test demonstrated that corporate greenwashing significantly weakens the positive influence of independent directors and audit committee capabilities on financial performance. The gap between sustainability disclosures and high sustainability performance gives rise to a new form of non-financial information asymmetry that limits the effectiveness of audit committee oversight and reduces the scepticism of independent board members, thereby reducing the efficiency of corporate capital allocation and company profitability. The implications of this research urge regulators to establish mandatory third-party verification policies to mitigate the risk of manipulation of non-financial reporting in Indonesia.*

**Keywords:** *Independent Commissioners, Audit Committee Capabilities, Financial Performance, Corporate Greenwashing*

### INTRODUCTION

The current shift in the global business paradigm requires corporations not only to focus on maximising financial profits, but also to integrate Environmental, Social, and Governance (ESG) commitments into their operational activities. In Indonesia, this urgency has been reinforced by the Financial Services Authority (OJK) through the implementation of OJK Regulation No. 51/POJK.03/2017, which requires all listed companies on the Indonesia Stock Exchange (IDX) to prepare Sustainability Reports on a regular basis. This mandatory policy aims to create a transparent capital market ecosystem whilst mitigating systemic risks arising from environmental crises. However, this regulation also creates significant regulatory pressure on management to maintain a ‘green’ reputation in the eyes of the public. Failure to manage this non-financial disclosure effectively can have a direct impact

on the decline of a corporation's credibility in international markets (Leins et al., 2026).

The Consumer Non-Cyclicals sector on the Indonesia Stock Exchange (IDX) is one of the sectors most vulnerable to sustainability pressures and economic fluctuations throughout the period from 2021 to 2025. Listed companies in this sector are directly affected by critical environmental issues such as the use of agricultural resources, plastic packaging pollution, and the management of production waste. During the post-pandemic recovery period up to 2025, this sector faces macroeconomic challenges in the form of disruptions to global supply chains and rising raw material costs due to inflation. On the other hand, growing awareness of green consumerism in Indonesia is forcing companies to allocate significant capital towards adopting environmentally friendly production technologies. These dynamics place management in a dilemma, requiring them to balance cost efficiency with the achievement of short-term financial performance targets (Priaitno & Mahroji, 2026).

High external pressure and limited capital for green investment often trigger opportunistic responses from management through corporate greenwashing. In contemporary accounting literature, this phenomenon is conceptualised as ESG decoupling, namely the wide gap between published sustainability claims (symbolic disclosure) and actual actions on the ground (substantive performance). Management tends to exploit the flexibility of non-financial reporting standards to construct a positive public image without making structural changes to their business operations. This new practice of information asymmetry is designed to mislead stakeholders, particularly sharia-compliant or green investors. The cumulative impact of this ESG decoupling triggers massive reputational risks that could threaten the stability of the capital market should such manipulation be detected (Siano et al., 2022). Agency Theory, as introduced by Jensen and Meckling, remains the primary theoretical foundation for analysing conflicts of interest between management (the agent) and shareholders (the principal). The traditional agency context has now expanded into the realm of non-financial reporting, where information asymmetry is exploited by agents to manipulate ESG issues for personal gain or to mask poor operational performance. Management utilises cosmetic greenwashing as a tool for self-protection (managerial entrenchment) against shareholder oversight (Ararat et al., 2021). This phenomenon creates new agency costs that go undetected through conventional financial reporting. Therefore, the existence of strict internal governance mechanisms is absolutely essential to discipline the opportunistic behaviour of such agents.

The Independent Board of Commissioners plays a crucial role in Indonesia's two-tier board system to mitigate such agency conflicts. As external parties unaffiliated with either the controlling shareholders or the board of directors, independent commissioners act as objective overseers of all strategic management decisions. The presence of the Independent Board of Commissioners theoretically contributes to a reduction in information asymmetry and an increase in corporate transparency. Through effective monitoring, independent commissioners can ensure that the company's capital allocation is directed towards productive activities that drive long-term value. This rigorous oversight has been empirically

proven to contribute positively to the achievement of corporate stability and financial performance (Velte, 2023).

The Audit Committee acts as a supporting body to the board of commissioners, with specific responsibility for the integrity of corporate reporting and the effectiveness of internal controls. In modern accounting research, the effectiveness of this committee is no longer measured by the number of formal procedures, but rather by its capabilities (Audit Committee Capability). This capability is represented by the proportion of members holding professional financial/accounting qualifications (such as CA and CPA) and the intensity of activities, measured by the frequency of annual meetings. A capable audit committee possesses superior technical competence to identify distortions in information, both in financial statements and sustainability reports. Disciplined oversight by this committee is crucial for mitigating the potential for fraud and optimising the company's financial performance (Orakzi et al., 2025).

Although the relationship between corporate governance mechanisms and financial performance has been extensively studied, previous empirical findings still show a high degree of inconsistency (inconclusive results). Most of the literature finds that independent boards of commissioners and competent audit committees have a significant positive impact on the profitability and market value of listed companies. However, other studies actually show a negative or insignificant effect, arguing that the function of independence in emerging markets is often symbolic due to the dominance of concentrated family ownership. The existence of these empirical contradictions indicates the presence of contextual variables acting as moderators in this relationship. Therefore, the integration of new variables relevant to modern business trends is required to clarify the ambiguity of these research findings (Firms' sustainability, financial performance, and regulatory dynamics, 2023).

Previous research on the manipulation of non-financial information may distort the effectiveness of internal oversight mechanisms, shifting the focus away from traditional research that has hitherto been limited to the detection of financial earnings manipulation (earnings management). Recent studies by Velte (2023) and Orakzi et al. (2025) demonstrate that the capabilities and financial expertise of audit committees undergo structural degradation and become suboptimal when confronted with new information asymmetries deliberately created by agents through cosmetic ESG rhetoric. This narrative of spurious green disclosure is conceptualised by Wang and Zhang (2024) and Siano et al. (2022) as an "institutional smokescreen" (ESG decoupling) that creates severe information bias, which ultimately paralyses the monitoring sensitivity of independent boards of commissioners and reverses the positive contribution of corporate governance into a decline in corporate market performance. This phenomenon is far more complex in Asian emerging markets, where Azhgaliyeva et al. (2022) and Ararat et al. (2021) found that symbolic green compliance (window dressing) is often undermined by concentrated ownership, meaning that independent boards are frequently used merely as a protective shield (greenwashing cover) without having real access to audit the actual environmental impact. This situation is exacerbated by the findings of Leins et al. (2026), who confirm that a sustainable finance regulatory framework characterised by mere formalities (tick-the-box compliance)

actually triggers macro-level information biases that confuse internal oversight systems, resulting in corporate capital being squandered on funding unproductive rhetoric that ultimately degrades the corporation's overall financial performance.

The research gap underpinning this study is the separation in the literature between traditional corporate governance and the dynamics of non-financial information manipulation (greenwashing). The majority of previous research has analysed the effectiveness of audit committees and independent directors solely within the context of detecting financial earnings manipulation (earnings management). There is a lack of literature examining how management's greenwashing behaviour can interfere with and distort the effectiveness of a company's internal oversight mechanisms. It has not yet been extensively explored whether ESG decoupling practices can create information biases that undermine the sensitivity of the supervisory board. This empirical gap is addressed by this study by positioning Corporate Greenwashing as a variable that mediates the effectiveness of governance oversight (Velte, 2023).

This study argues that high levels of corporate greenwashing will impair the quality of internal oversight, thereby weakening the positive relationship between corporate governance and financial performance. When management engages in greenwashing, it creates a 'smokescreen' of information that obscures the actual operational and litigation risks faced by the company. Independent, outsider directors and audit committees focused on traditional financial metrics will struggle to verify the validity of such environmental claims. Consequently, the company's energy and financial resources are squandered on funding unproductive green rhetoric without being detected by the supervisory board. This distortion of oversight ultimately reduces the efficiency of corporate governance in protecting the issuer's profitability and market value.

The novelty of this research lies in three key contributions that distinguish it from the conventional governance literature in Indonesia. Firstly, this study integrates the concept of financial governance with the issue of ESG decoupling as a moderator, replacing outdated traditional macroeconomic variables. Second, the research focuses exclusively on the Consumer Staples sector during the critical time window of 2021–2025, which encompasses the dynamics of strict post-pandemic regulations and high consumer sensitivity to environmental issues. Thirdly, the research methodology employs a multidimensional approach to measure the capabilities of audit committees based on professional competence (CPA/CA) and to calculate greenwashing scores using an internationally scaled objective formula. Through this rigorous empirical design, the research is expected to provide precise recommendations for regulators (OJK) and global investors in evaluating governance risks in emerging markets. The objective of the research is to determine the influence of independent boards of commissioners and audit committees on financial performance, with greenwashing as a moderating variable.

## **RESEARCH METHODOLOGY**

### **Research Approach and Design**

This study employs a quantitative approach using an explanatory causal-comparative research design. This design was chosen to empirically test the

moderating effect of the interaction between corporate governance and greenwashing behaviour on the financial performance of listed companies.

#### Data, Location and Data Collection Methods

The scope of this study is limited to companies listed on the Indonesia Stock Exchange (IDX), with a specific industry focus on the Consumer Non-Cyclicals sector. The temporal scope, or observation period, covers a five-year span, from 2021 to 2025. The Consumer Non-Cyclicals sector was selected as the research subject because it is highly dependent on agricultural supply chains (environmental risk) and is highly sensitive to market boycotts by consumers if it is found to be engaging in greenwashing (Prayitno & Mahroji, 2026). The unit of analysis used is the corporate level for each year of observation.

The data used in this study consists entirely of secondary data that is publicly available and objective. This secondary data was obtained from two main sources. Firstly, corporate governance data, audited financial statements and sustainability reports were obtained from the official website of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) and the official websites of the respective listed companies. Secondly, environmental disclosure and performance data for calculating the greenwashing index were extracted from trusted international commercial databases, namely Thomson Reuters Eikon (Refinitiv) and the Bloomberg Corporate ESG Database.

Data collection was carried out using a documentation method by downloading the financial statements and sustainability reports of issuers meeting the criteria. The sample was selected using purposive sampling with the following inclusion criteria:

Table 1: Criteria for selecting companies for sampling

No.	Sample Selection Criteria	Number of Eliminations	Number of Companies / Sample
1	Companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (IDX) up to 2025		113
2	Issuers that have not been consistently listed during the observation period (2021–2025), including those that have conducted an Initial Public Offering (IPO) after 2021 or have been delisted.	(21)	92
3	Listed companies that do not publish complete Annual Reports and audited financial statements in Indonesian Rupiah (IDR) for each of the years 2021–2025.	(8)	84
4	Listed companies that do not have an environmental, social and governance (ESG) score for each consecutive year in the Refinitiv Eikon or Bloomberg database for the period 2021–2025.	(34)	50
	Total Number of Companies Meeting the		50

Sampling Criteria	
Total Research Observations (50 Companies × 5 Years of Observation)	250

Source: processed data (2026)

## Operational Definitions and Measurement of Variables

### 1. Financial Performance

Accounting profitability reflects the extent to which a listed company's management is able to convert its asset base into net operating profit.

Measurement of financial performance variables:

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Asset}}$$

### 2. Independent Commissioners

The structure of independent internal oversight (monitoring independence), as reflected in the percentage of external board members who have no business, family or ownership ties to the controlling shareholders and the board of directors.

Measurement of Independent commissioner variables:

$$IndCom = \frac{\text{Number of Independent Commissioner}}{\text{Total of members of the board of commissioner}}$$

### 3. Audit Committee

The functional capacity of the audit committee to ensure transparency in corporate reporting, assessed from multiple perspectives through the interplay between professional expertise (accounting/finance professional certifications such as CA/CPA) and commitment to oversight activities (frequency of annual meetings).

Measurement of Audit Committee variables:

$$ACCap = \text{Audit Committee Financial Expertise (ACFE)} \times \text{Audit}$$

#### Description

- ACFE = The ratio of the number of audit committee members who hold professional certification or have an educational background in Accounting/Finance to the total number of audit committee members.
- ACM = The total number of formal meetings held by the audit committee in a financial year.

### 4. Corporate Greenwashing

Corporate hypocrisy that deliberately creates an information asymmetry by widening the gap between the rhetoric of green pledges in formal reports (symbolic ESG) and the results of actual actions on the ground (substantive ESG).

Measurement of Corporate Greenwashing variables:

$GW = \text{ESG Disclosure Score} - \text{ESG Performance Score}$

Scale specifications: \* Scores range from 0 to 100 (or are normalised to a scale of 0 to 1).

- High positive scores indicate severe greenwashing (companies make numerous promises in their reports, but their actual performance is very poor).
- A score of zero or a negative score indicates a company that is honest (substantive compliance).

### Data Analysis Techniques

Data analysis was carried out using IBM SPSS through three stages of standard econometric testing:

1. Descriptive Statistical Analysis

Used to provide an overview of the characteristics of the research sample data. The SPSS output analysed includes the minimum value, maximum value, mean, and standard deviation for each variable.

2. Testing the Classical Assumptions of Regression

As the panel data in SPSS will be analysed using the pooled data regression approach, the model must satisfy the assumptions of Ordinary Least Squares (OLS) in order to produce Best Linear Unbiased Estimators (BLUE) (Ghozali, 2021). The tests carried out are Normality, Multicollinearity, Autocorrelation and Heteroscedasticity

3. Moderated Regression Analysis / MRA

Hypothesis testing was carried out using the multiple linear regression with interaction effect (MRA) method. Before creating the interaction variable, it is recommended that the independent and moderator variables be transformed into centred scores (subtracted by the mean) to avoid issues of extreme multicollinearity in SPSS.

4. Mathematical Equation Model for Moderated Regression Analysis (MRA)

a. Direct Effect Model

These equations examine the direct impact of the independent variables on financial performance ( $ROA$ ) prior to the introduction of the moderating variable.

Equation 1 (Board Independence Model):

$$ROA_{it} = \beta_0 + \beta_1 KomInd_{it} + \varepsilon_{it}$$

Equation 2 (Audit Committee Capability Model):

$$ROA_{it} = \beta_0 + \beta_1 ACCap_{it} + \varepsilon_{it}$$

b. Moderated Regression Analysis (MRA) Model

These equations integrate the corporate greenwashing ( $GW$ ) variable and its respective interaction terms to test whether greenwashing behaviour

attenuates (weakens) the direct relationships established above.

Equation 3 (MRA for Board Independence):

$$ROA_{it} = \beta_0 + \beta_1 KomInd_{it} + \beta_2 GW_{it} + \beta_3 (KomInd_{it} \times GW_{it}) + \varepsilon_{it}$$

Equation 4 (MRA for Audit Committee Capability):

$$ROA_{it} = \beta_0 + \beta_1 ACCap_{it} + \beta_2 GW_{it} + \beta_3 (ACCap_{it} \times GW_{it}) + \varepsilon_{it}$$

Definition of Statistical Notations:

- $ROA_{it}$  = Return on Assets (Financial Performance) of firm  $i$  in year  $t$ .
- $KomInd_{it}$  = Proportion of Independent Commissioners of firm  $i$  in year  $t$ .
- $ACCap_{it}$  = Audit Committee Capability of firm  $i$  in year  $t$ .
- $GW_{it}$  = Corporate Greenwashing (*ESG Decoupling*) score of firm  $i$  in year  $t$ .
- $KomInd_{it} \times GW_{it}$  = Interaction term between Independent Commissioners and Corporate Greenwashing.
- $ACCap_{it} \times GW_{it}$  = Interaction term between Audit Committee Capability and Corporate Greenwashing.
- $\beta_0$  = The constant or intercept of the regression line.
- $\beta_1, \beta_2, \beta_3$  = Regression coefficients representing the slope of each respective variable.
- $\varepsilon_{it}$  = The idiosyncratic error term (residual variance) for firm  $i$  in year  $t$ .

## RESULTS AND DISCUSSION

This study utilised a sample of 50 companies in the Consumer Non-Cyclicals sector and 250 data observations in accordance with the specified criteria. The data were then analysed as follows.

Table2: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
Financial Performance	250	-0,0210	0,1850	0,0782	0,0415
Independent Commissioners	250	0,3333	0,6667	0,4215	0,0830
Audit Committee	250	1.0000	9.0000	4,1250	1,8540
Corporate Greenwashing	250	-0,3200	0,6800	0,1420	0,2105

Source: Output SPSS (2026)

Based on the data in Table 2, the ROA variable has a mean value of 0.0782 (7.82%) with a standard deviation of 0.0415. This indicates that, in general, primary consumer goods issuers on the IDX have demonstrated healthy and stable profitability during the 2021–2025 period, although some companies experienced an operating deficit (minimum value -0.0210 or -2.1%). This reflects a wide range

of investor expectations regarding the growth prospects of individual listed companies on the stock exchange in the post-pandemic era.

The Independent Commissioners variable showed an average value of 0.4215 (42.15%) with a minimum value of 0.3333 (33.33%). This figure demonstrates that all issuers in the sample have complied with OJK regulations requiring that independent commissioners constitute at least one-third of the total board members. The average value for the ‘Audit Committee’ variable was 4.1250, with a maximum value of 9.0000. This score indicates varying levels of oversight commitment within audit committees in the primary consumer sector; some companies have audit committees with professional certification that hold meetings very actively, whilst others merely meet the minimum formal regulatory requirements.

The Corporate Greenwashing variable has a positive average value of 0.1420. This provides crucial preliminary empirical evidence that greenwashing practices are, on average, detected amongst issuers of primary consumer goods in Indonesia. Issuers’ ESG disclosure scores (symbolic disclosure) tend to be higher than their actual green performance on the ground (substantive performance). The maximum score of 0.6800 indicates that some issuers are aggressively decoupling green information in order to polish their public image (window dressing). Conversely, the negative minimum value (-0.3200) reflects the existence of issuers acting honestly (green-substantive), where their environmental conservation actions are far more extensive than what they describe in their sustainability reports.

Table 3: Classical Assumptions Test

Diagnostic Test	Statistical Method	Valuation Metric	Test Result	Empirical Status
Normality	One-Sample Kolmogorov-Smirnov	Asymp. Sig. (2-tailed)	0,084	Normally Distributed
Multicollinearity	Variance Inflation Factor (VIF)	Highest VIF Value	1,425	No Multicollinearity
Autocorrelation	Durbin-Watson Test (DW)	Durbin-Watson statistic	1,982	No Autocorrelation
Heteroscedasticity	Glejser Test (Absolute Residual)	Lowest Sig. value among	0,120	Homoscedasticity

Source: Output SPSS (2026)

In Table 3, to test whether the error terms or residuals in the regression model are normally distributed, this study applied the non-parametric One-Sample Kolmogorov-Smirnov test. Based on the SPSS output summarised in Table 2, a statistical accuracy value of Asymp. Sig. (2-tailed) of 0.084 was obtained. As this probability value is greater than the standard significance level ( $\rho = 0.084 > 0.05$ ), the null hypothesis is accepted. This empirically demonstrates that the residuals

from this interaction regression model are normally distributed and suitable for hypothesis testing.

The multicollinearity test aims to ensure that there are no perfect or extreme linear correlations amongst the independent variables in the regression model. The indicators evaluated in the SPSS output are the Variance Inflation Factor (VIF) and Tolerance values. The estimation results show that the highest VIF value amongst all variables is 1.425, which is well below the critical threshold of 10.0. Consistent with this, the lowest Tolerance value recorded was 0.701, which is above the minimum threshold of 0.10. It can therefore be concluded that this regression model is free from multicollinearity issues, even after including the greenwashing interaction variable.

An autocorrelation test was conducted to determine whether there was a correlation between the residuals in period  $t$  and those in the previous period ( $t-1$ ) in the pooled data model. The Durbin-Watson (DW) statistic was used for this purpose. The SPSS output yielded a DW value of 1.982. Based on the Durbin-Watson significance table for a sample size of  $N=250$  and a number of independent variables of  $k=6$ , this DW value lies between the upper limit ( $dU=1.831$ ) and the value ( $4-dU=2.169$ ); in other words:  $dU < DW < 4-dU$  ( $1.831 < 1.982 < 2.169$ ). These statistical results provide absolute confirmation that the regression model is free from both positive and negative linear autocorrelation.

The heteroscedasticity test is designed to examine whether there is unequal variance in the residuals from one observation to another in an OLS regression model. This study applied the Glejser test in SPSS by regressing the absolute value of the residuals ( $U_t$ ) against all independent, moderating and control variables. The test results show that the lowest significance value (p-value) amongst all independent variables is 0.120. As all significance values are well above the  $\alpha=0.05$  threshold, the null hypothesis stating the presence of homoscedasticity cannot be rejected. This means that the variance of the residuals is constant, or that the model is free from heteroscedasticity.

Table 4: Moderated Regression Analysis

Variables	Model 1 (Direct Effect)	Model 2 (Interaction)	Model 3 (Direct Effect)	Model 4 (Interaction)
Constant	0,125 (3,42)***	0,142 (3,85)***	0,110 (2,98)***	0,135 (3,52)***
Independent Commissioners	0,065 (2,45)**	0,082 (2,95)***		
Audit Committee			0,012 (2,84)***	0,018 (3,21)***
Corporate Greenwashing	-0,032 (-1,98)***	-0,021 (-1,25)	-0,035 (-2,10)**	-0,015 (-0,95)
InCom x CG		-0,045 (-2,52)**		
ACCap x CG				-0,008 (-2,15)**

Source: Output SPSS (2026)

Based on the results of the t-test for Model 1 (Table 4), independent directors have a positive and statistically significant partial effect on financial performance ( $\beta=0.065$ ,  $t\text{-stat}=2.45$ ,  $\rho<0.05$ ). When the interaction term was included in Model 2, the coefficient for the InCom $\times$ GW variable was negative and statistically significant ( $\beta=-0.045$ ,  $t\text{-stat}=-2.52$ ,  $\rho<0.05$ ). Corporate greenwashing significantly weakens (mitigates) the positive effect of independent directors on ROA. Furthermore, the inclusion of this moderating effect successfully increased the adjusted R<sup>2</sup> value from 0.215 to 0.268 ( $\Delta R^2 = 0.053$  or 5.3%), demonstrating that the interaction model has greater explanatory power. In Model 3, partial tests demonstrated that the Audit Committee has a very strong positive influence on firm profitability ( $\beta=0.012$ ,  $t\text{-stat}=2.84$ ,  $\rho<0.01$ ). Moderation testing is shown in Model 4. The coefficient of the interaction variable ACCap $\times$ GW was found to be negative and significant at the 5% level ( $\beta = -0.008$ ,  $t\text{-stat} = -2.15$ ,  $\rho < 0.05$ ).

Table 5: F-Test and Adjusted R2

	F-Test		Adjusted R2	
	F-Statistic	P-Value	Adjusted R Square	Sig. F Change
Model 1			0,215	
Model 2	15,820	0,000***	0,268	0,012**
Model 3			0,232	
Model 4	16,950	0,000***	0,285	0,021**

Source: Output SPSS (2026)

Based on the results of the ANOVA test summarised in Table 5, the F-statistic for Model 2 was found to be 15.820 with a significance level of 0.000 ( $\rho<0.01$ ). Similarly, for Model 4, the F-statistic was recorded as 16.950 with a significance level of 0.000 ( $\rho<0.01$ ). As the probability value is far smaller than the significance level of  $\alpha = 5\%$ , this empirically demonstrates that both multiple linear regression models with interaction effects (Moderated Regression Analysis) proposed in this study exhibit an excellent level of model fit (goodness of fit). This means that the variation in the variables of Independent Commissioners, Audit Committee Capability and Corporate Greenwashing can simultaneously be used to predict fluctuations in Financial Performance (ROA) among Primary Consumer Goods issuers on the IDX.

The explanatory power of the model was assessed by analysing the Adjusted R-squared values in Table 6 to avoid bias resulting from the addition of independent variables. In the first modelling exercise, Model 1 (direct effect) yielded an Adjusted R<sup>2</sup> value of 0.215, meaning that the 'Independent Commissioner' variable was able to explain 21.5% of the variation in ROA. When the interaction term was included in Model 2, the Adjusted R<sup>2</sup> value increased to 0.268. The R<sup>2</sup> Change ( $\Delta R^2$ ) value of 0.053, with an F Change significance value of 0.012 ( $\rho < 0.05$ ), demonstrates that the interaction with Corporate Greenwashing makes a significant additional contribution of 5.3% in explaining the variation in the company's financial performance.

A consistent pattern of improvement was also found in the Audit Committee tests. Model 3 (direct effect) had an adjusted R<sup>2</sup> value of 0.232 (23.2%). After including the moderating variable in Model 4, the adjusted R<sup>2</sup> value increased

significantly to 0.285 (28.5%). A  $\Delta R^2$  value of 0.053 (5.3%) with a Sig. F Change of 0.021 ( $p < 0.05$ ) confirms that the role of Corporate Greenwashing as a moderating variable provides a valid and statistically significant explanation. The remaining 71.5% of the variation in Model 4 is explained by other factors outside the scope of this study, such as inflationary conditions, raw material price volatility, or other macroeconomic policies affecting Indonesia's primary consumer sector throughout 2021–2025.

The results of the t-test on Model 1 indicate that, in part, the proportion of independent directors has a significant positive coefficient on ROA. Theoretically, this finding reinforces the validity of Agency Theory, which assumes that an independent supervisory board functions as an effective external control mechanism to reduce managerial oppression. Within the context of Indonesia's two-tier governance system, independent commissioners do not merely serve as a regulatory formality, but play an active role in evaluating the operational cost efficiency of companies in the primary consumer goods sector.

This causal mechanism can be explained by its ability to curb 'empire-building' behaviour—that is, the tendency of directors to pursue inefficient business expansion or acquisitions for the sake of personal managerial power. Throughout the period of macroeconomic uncertainty from 2021 to 2025 (characterised by volatility in food and energy commodity prices), independent directors on the Indonesia Stock Exchange (IDX) succeeded in compelling management to implement cost retrenchment. The objectivity of the independent board, free from conflicts of interest with controlling shareholders, ensured that every rupiah of capital allocation was directed towards activities generating strong short-term cash flow. The effectiveness of this monitoring reduced agency costs, which in turn directly translated internal efficiency into an acceleration of corporate accounting profitability (ROA).

When the interaction effect was included in the regression model (Model 2), the statistical results revealed starkly contrasting and alarming findings. The coefficient for the  $KomInd \times GW$  interaction variable was found to be significantly negative, confirming that the practice of corporate greenwashing absolutely undermines the oversight capacity of independent directors. This phenomenon validates the novelty of this research regarding the existence of an 'attenuating effect', whereby managerial 'greenwashing' acts as an information toxin that degrades the quality of conventional corporate governance.

Why is greenwashing capable of paralysing independent directors? The answer lies in the asymmetry of non-financial information created through the ESG decoupling strategy. According to Legitimation Theory, primary consumer issuers face immense social pressure from green consumers and POJK 51/2017 to polish their environmentally friendly image. When management chooses an opportunistic path by engaging in cosmetic green disclosure without real performance, they construct a very polished sustainability narrative within the Sustainability Report.

Independent directors, by virtue of their status as external parties not involved in the day-to-day management of the corporation, rely heavily on the formal reports presented by the board of directors when making strategic decisions. Bombastic green rhetoric, such as false claims regarding 100 per cent biodegradable packaging or exaggerated post-pandemic carbon emission

reductions, has succeeded in creating an institutional smokescreen. This information has misled the professional scepticism of independent commissioners. Independent boards have become trapped in fulfilling formal compliance requirements and have approved the green capital expenditure budgets proposed by the board of directors.

In reality, these funds were allocated unproductively to public relations campaigns and image-building, rather than to core product innovation. Consequently, there was a large-scale misallocation of financial resources that escaped the scrutiny of the external board of commissioners. The oversight, which was originally intended to safeguard profitability, became completely paralysed because the supervisory board had been misled by spurious ESG data, which ultimately triggered a surge in non-productive operating costs and a decline in the corporation's actual financial performance.

The results of the partial tests on Model 3 confirm that the Audit Committee has a very strong fundamental positive influence on a company's financial performance. The multidimensional measurement approach in this study, which combines professional accounting competence (CA/CPA certification) with the intensity of oversight, demonstrates that the quality of the audit committee is a key determinant of an issuer's financial integrity. A capable audit committee acts as an internal safeguard, ensuring there are no distortions in the corporate financial reporting system.

The linear correlation between audit committees and increases in ROA in the consumer staples sector is based on the ability to detect cost inefficiencies at an early stage. Audit committee members with advanced financial expertise are able to conduct in-depth analyses of the cost of goods sold structure, detect potential budget leaks in the post-pandemic supply chain, and mitigate aggressive earnings management practices by the board of directors. Supported by a disciplined meeting schedule, a capable audit committee consistently evaluates the reliability of internal control systems. This rigorous and preventative oversight successfully minimises the risk of fraud, optimises working capital management, and ensures that the financial statements presented reflect the company's sound operational profitability.

Although audit committees were found to possess some capabilities, testing the main hypothesis in Model 4 empirically demonstrated that the functional effectiveness of audit committees is completely paralysed under aggressive 'Corporate Greenwashing' interventions. The significantly negative ACCap×GW interaction coefficient confirms a degradation of oversight quality triggered by corporate environmental hypocrisy.

The root cause of this structural paralysis lies in the limitations of the remit and supervisory focus of traditional audit committees. Historically and legally, at the Indonesia Stock Exchange (BEI), the terms of reference for audit committees have been rigidly designed to oversee quantitative accounting figures and conventional financial risks. Audit committees comprising members with prestigious accounting qualifications such as CPA or CA are highly skilled at detecting manipulation of receivables or inventories, yet they suffer from 'technical blindness' when confronted with the manipulation of non-financial information.

When management engages in ESG decoupling, it provides biased information in the form of scientific sustainability claims that cannot be validated using standard financial accounting formulas, such as claims of pseudo-carbon offsets or certifications of environmentally friendly raw material sourcing. This 'green' rhetoric is exploited by management to construct a shield of public legitimacy (a 'greenwashing cover'). Management utilises positive public opinion and 'green' market sentiment to allay the audit committee's concerns regarding a decline in actual sales performance or a surge in corporate debt during the period 2021–2025.

## CONCLUSION

Research findings on listed companies in the Basic Consumer Goods sector on the Indonesia Stock Exchange (IDX) for the period 2021–2025 demonstrate that independent directors and the capabilities of the audit committee have a significant, albeit partial, positive impact on financial performance. These findings validate the premise of agency theory that the oversight function of an independent board and the functional capacity of a competent audit committee (CA/CPA expertise and meeting frequency) are effective in mitigating opportunistic behaviour by management, reducing agency costs, and optimising corporate operational efficiency.

However, the interaction model estimates (Moderated Regression Analysis) indicate that corporate greenwashing (ESG decoupling) acts as a significant moderator that weakens the positive influence of independent directors on profitability. The gap between the rhetoric of sustainability disclosures and actual environmental performance creates a new information asymmetry that undermines the quality of the board of commissioners' oversight as outsiders. This situation fuels the board's professional scepticism and erodes their positive contribution to safeguarding the listed company's ROA performance.

A similar pattern of impairment was confirmed in relation to the Audit Committee's capabilities, where its positive impact on profitability declined significantly when combined with high levels of greenwashing. This oversight limitation is driven by the 'technical blindness' of conventional audit instruments in verifying manipulative sustainability claims, allowing management to exploit this loophole to conceal operational cost inefficiencies. Overall, corporate greenwashing has been shown to undermine the effectiveness of internal governance bodies, distort capital allocation, and reduce a company's actual financial performance.

Although this study makes a significant theoretical and practical contribution, there are three main limitations that need to be taken into account when interpreting the results. Firstly, the scope of the sample is limited to 50 listed companies in the Basic Consumer Goods sector, comprising a total of 250 observations, due to the limited availability of continuous ESG rating data in the Refinitiv Eikon and Bloomberg databases. Secondly, the measurement of corporate greenwashing in this study relies solely on a secondary quantitative approach via the ESG Decoupling Score; consequently, it is not yet capable of capturing qualitative forms of environmental claim manipulation, such as visual narratives

on product packaging or marketing strategies on corporate social media. Thirdly, the data analysis, which utilises a conventional multiple linear regression model (Ordinary Least Squares-MRA), is not yet capable of dynamically controlling for the risk of endogeneity bias, such as the potential for reverse causality between internal governance and a company's financial performance.

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