








“The effect of two-tier board characteristics on firm value: The mediating role of corporate reputation in Indonesia”

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THE EFFECT OF TWO-TIER BOARD CHARACTERISTICS ON FIRM VALUE: THE MEDIATING ROLE OF CORPORATE REPUTATION IN INDONESIA

Abstract

This study examines the effect of two-tier board characteristics on firm value, with corporate reputation, proxied by Return on Assets (ROA), as a mediating variable. The research focuses on the Indonesian two-tier governance context, where the Board of Commissioners supervises management under concentrated ownership structures. The study uses panel data from 333 firm-year observations of non-financial companies listed on the Indonesia Stock Exchange (IDX) and included in the Kompas 100 Index over the 2019–2023 period. Data were analyzed using panel regression models with the Sobel test applied to evaluate the mediating effect. The results reveal that among the six examined board attributes, namely independence, size, tenure, education, meeting frequency, and age, only board meeting frequency shows a significant positive effect on firm value ($p < 0.01$). Board size positively affects ROA, indicating that a larger supervisory board enhances operational efficiency, while board education exhibits a negative influence, suggesting a potential mismatch between academic qualifications and practical business needs. However, ROA does not significantly affect firm value ($p > 0.05$), indicating that corporate reputation, when proxied by financial performance, fails to mediate the relationship between board characteristics and firm value. These findings underscore the crucial role of board meetings as a formal mechanism for effective supervision in Indonesia's two-tier system. Moreover, they highlight that financial reputation alone is insufficient to drive firm value in emerging markets where direct governance mechanisms are more influential.

Keywords

two-tier board, board characteristics, corporate reputation, firm value, Tobin's Q, agency theory, Indonesia

JEL Classification

G34, G32, M14

INTRODUCTION

Corporate governance serves as the foundation for corporate integrity and investor trust, particularly in emerging economies where ownership structures are often highly concentrated. In Indonesia, this ownership concentration heightens the potential for agency conflicts between controlling and minority shareholders, thereby emphasizing the need for strong monitoring mechanisms (Lukviarman & Prima Johan, 2018). To mitigate these conflicts, the presence of a board of commissioners becomes not merely formal but strategic, functioning as a balancing force between majority and minority shareholders. Accordingly, stakeholders must acknowledge the critical role in ensuring effective oversight of corporate activities (Ardiany et al., 2023). In response to these governance challenges, Indonesia adopts a two-tier board system as mandated by Law No. 40/2007 on Limited Liability Companies (UU_Perseroan Terbatas, 2007). This system distinctly separates supervisory and managerial responsibilities, aiming to

strengthen accountability and reduce conflicts of interest. However, despite this regulatory framework, questions persist regarding the extent to which such a governance structure effectively enhances firm value, especially in contexts where market mechanisms and investor protections remain underdeveloped.

The relevance of effective governance becomes evident when observing firms listed in the Kompas 100 Index, which represents companies with robust fundamentals and liquidity. Their inclusion often reflects higher standards of transparency and operational performance, which in turn influence how investors perceive corporate quality (Eang et al., 2023). However, significant differences in firm value among these companies indicate that not all governance structures perform equally well. This disparity suggests that board characteristics may have differential impacts on firm outcomes, depending on how effectively they are configured within the two-tier system.

Existing literature has identified multiple board attributes, such as independence, size, tenure, educational background, meeting frequency, and age, as key elements shaping governance effectiveness. These attributes influence how boards perform their oversight and advisory functions, which ultimately affect strategic decision-making and firm performance (Gavana et al., 2023). Although board independence is often praised for improving transparency and accountability, its benefits are context-dependent and may diminish in markets characterized by concentrated ownership (Kyaw et al., 2022; Sierra-Morán et al., 2024). Similarly, larger or more experienced boards can enhance decision quality through diverse insights but risk inefficiency and slower responses (Zaid et al., 2020; Paolone et al., 2023). The inconsistencies in these findings underscore a critical empirical gap in understanding how specific board characteristics influence firm value in Indonesia's two-tier governance setting.

Beyond internal governance mechanisms, corporate reputation plays a complementary role by reflecting external perceptions of a firm's credibility and reliability. Reputation functions as an intangible asset that enhances stakeholder trust and legitimizes corporate behavior (Fombrun, 2012; Raithel & Schwaiger, 2015). It has been argued that good governance practices contribute to firm value indirectly through their positive impact on reputation (Roberts & Dowling, 2002). Yet, in developing economies, where market transparency and investor awareness are limited, this mediating mechanism may not operate as effectively. These circumstances bring forth a central scientific problem: to what extent can board characteristics within Indonesia's two-tier governance structure enhance firm value through the mediating role of corporate reputation?

Addressing this issue is crucial for understanding how board mechanisms can be optimized in emerging markets. Clarifying this relationship offers not only empirical insights into the Indonesian corporate environment but also theoretical implications for how governance and reputation jointly shape firm value in contexts characterized by ownership concentration and evolving market institutions.

1. LITERATURE REVIEW AND HYPOTHESES

The evolution of agency theory has profoundly shaped the understanding of conflicts within corporations. Initially, the primary tension centered on the divergence between shareholders and managers due to managerial opportunism (Jensen & Meckling, 1976), underscoring the importance of effective monitoring mechanisms. Independent and competent boards serve as safeguards that enhance oversight, transparency, and accountabil-

ity (Fama & Jensen, 1983). In developing economies characterized by concentrated ownership, such as Indonesia, agency conflicts shift toward the relationship between majority and minority shareholders (La Porta et al., 2000; Claessens et al., 2000), which requires boards to assume broader roles. Beyond supervising management, they must also constrain controlling shareholders' opportunistic tendencies to protect minority investors (Lukviarman & Prima Johan, 2018). Consequently, board effectiveness emerges as a crucial determinant in balancing stakeholder interests and rein-

forcing governance mechanisms that support sustainable firm value creation. Understanding this evolution of agency problems provides the theoretical foundation for exploring how firm value reflects governance effectiveness.

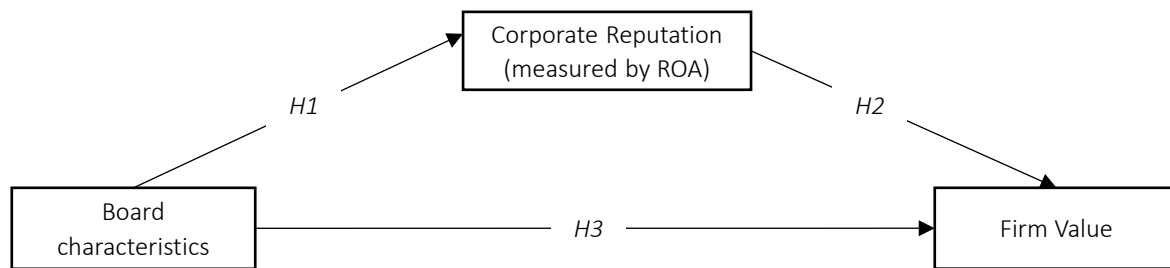
The effectiveness of governance is an important indicator of a company's success in creating market trust and reputation, which is ultimately reflected in increasing the company's value. Firm value represents a comprehensive indicator of corporate performance, integrating market expectations, profitability, and growth potential (Nkonge et al., 2023). It reflects the total claims of both equity and debt holders on firm assets, signaling managerial efficiency and sustainability (Li et al., 2021). Sound corporate governance enhances investor confidence by promoting credible financial reporting and protecting stakeholder interests. Within this framework, agency theory explains how governance mechanisms such as ownership structure, board independence, and managerial incentives shape firm value (Yadav, 2022). Boards are thus entrusted with aligning managerial actions with shareholder objectives to minimize agency costs (Achour, 2022). Tobin's Q remains a widely accepted proxy for firm value in governance research (McConnell & Servaes, 1990; Morck et al., 1988), though its precision in emerging markets is limited by weaker financial transparency (Wiwattanakantang, 2001). To address this limitation, the simplified Tobin's Q (Wiwattanakantang, 2001) is applied in this study, providing a more practical and comparable measure of market performance. This approach enables a more accurate assessment of governance effectiveness in shaping firm value under concentrated ownership conditions. Such a framework highlights the central role of corporate governance as a mechanism linking ownership structure and firm value.

Firm value embodies the cumulative impact of strategic decisions and monitoring effectiveness within the organization, functions that corporate governance serves. Corporate governance serves as a structural and functional system designed to ensure accountability and efficiency in the management of corporate resources. It emerged from early debates on the separation of ownership and control (Berle & Means, 1932), emphasizing the alignment of managerial behavior with

shareholder interests. As both a monitoring and control mechanism, governance promotes transparency, discipline, and ethical conduct within firms (Daily et al., 2003). Strong governance structures enhance organizational competitiveness and long-term sustainability, particularly in environments where ownership concentration poses agency challenges (Baral, 2020). In Indonesia, governance mechanisms are pivotal for building stakeholder trust and ensuring accountability, thereby supporting long-term firm value creation (Lukviarman & Prima Johan, 2018). Through effective oversight, governance strengthens internal controls and minimizes conflicts of interest, ensuring ethical management practices that benefit both shareholders and society (Filsaraei, 2024). Since the board represents the core of governance practice, examining its characteristics becomes vital to understanding how governance affects firm outcomes.

At the core of governance lies the board of commissioners or supervisory board, which safeguards corporate integrity through oversight of management and financial processes. Board characteristics such as independence, diversity, expertise, and ethical orientation are critical to effective governance (Chen et al., 2022). Competent boards foster transparency and accountability, enhancing decision-making quality and investor confidence (Gad, 2020). Diversity within boards further contributes to adaptive strategies and sustainable performance (Meng et al., 2024), while weak boards risk governance failures and expropriation of minority shareholders' interests. The strength of the board thus not only shapes internal control but also influences external perceptions, linking governance effectiveness to corporate reputation and, ultimately, firm value. This interconnection between board effectiveness and external perception introduces the importance of corporate reputation as a mediating mechanism.

Corporate reputation emerges as a pivotal mediating construct connecting board characteristics with firm value. An effective board fosters trust among stakeholders, projecting a positive image of integrity and competence (Roberts & Dowling, 2002; Raitel & Schwaiger, 2015). A favorable reputation signals sound governance and reduces perceived risk, attracting investors and



Note: Corporate reputation is measured by Return on Assets (ROA). H4 represents the mediating effect of corporate reputation on the relationship between board characteristics and firm value.

Figure 1. Research model

enhancing firm valuation. In emerging markets like Indonesia, where ownership concentration intensifies agency conflicts, reputation functions as an intangible strategic asset that amplifies the benefits of effective governance. By shaping stakeholder perceptions, it strengthens the causal chain between board effectiveness and firm value. Accordingly, this study incorporates corporate reputation, proxied by ROA, as a mediating variable linking board characteristics and firm value. Understanding this mediating pathway allows for a clearer investigation of how board attributes translate into measurable financial outcomes.

Empirical research underscores that board characteristics are foundational to governance effectiveness and corporate performance. Independent, diverse, and competent boards enhance monitoring quality, reduce information asymmetry, and promote strategic agility (Saravanan et al., 2022; Wang, 2022). However, findings remain inconclusive, as the effects of board structure vary across ownership concentration, institutional contexts, and industries (Souther, 2021; Orazalin et al., 2015). These inconsistencies suggest that the governance performance relationship is context-dependent rather than universal. Furthermore, board characteristics significantly influence corporate reputation by improving reporting credibility and aligning management with stakeholder expectations (Kara et al., 2022; Cai et al., 2022). Yet, this relationship is also moderated by contextual factors such as industry conditions and board expertise (Mollah et al., 2021; Jelic et al., 2021). As a result, reputation functions as both a reflection and a consequence of governance quality, serving as an intermediary mechanism that transforms board effectiveness into sustainable firm value

(Fombrun, 1996; Pascual-Fuster & Crespi-Cladera, 2022; Campbell et al., 2021). Nonetheless, prior evidence highlights that this mediating effect is not uniform across industries or strategic orientations (Wiersema et al., 2020), underscoring the need for context-specific examination. These mixed findings justify further empirical investigation into the board–reputation–value nexus in emerging markets like Indonesia.

In summary, the literature suggests that board characteristics play a crucial role in shaping firm value directly and indirectly through corporate reputation. Effective governance mechanisms not only mitigate agency conflicts but also enhance organizational credibility, which in turn strengthens investor confidence and market valuation.

Building on this theoretical and empirical foundation, this study aims to examine the effect of board characteristics on firm value, both directly and indirectly through corporate reputation, within the context of Indonesia's two-tier governance system. Based on the above discussion, the following hypotheses are proposed:

H1: Board characteristics have a positive effect on corporate reputation.

H2: Corporate reputation has a positive effect on firm value.

H3: Board characteristics have a positive effect on firm value.

H4: Corporate reputation mediates the relationship between board characteristics and firm value.

In the research model shown in Figure 1, firm value is the dependent variable, while the independent variable is board characteristics. The mediating variable of corporate reputation bridges the gap between board characteristics and firm value.

2. METHOD

This study adopts a quantitative approach using panel data regression to examine the relationship between board characteristics and firm value, with corporate reputation serving as a mediating variable. The research procedure comprises four interconnected stages: sample selection, data collection, variable measurement, and data analysis. The sample is determined through a purposive sampling method, focusing on publicly listed non-financial firms included in the Kompas 100 Index during 2019–2023. To ensure comparability, state-owned enterprises (SOEs) and financial sector firms are excluded due to their distinct governance structures and regulatory frameworks. The initial population consisted of 500 firm-year observations. After removing 87 SOEs, 75 financial institutions, and 5 firms with incomplete data, the final sample comprises 333 firm-year observations.

Data were obtained from secondary sources, primarily annual reports published on the Indonesia Stock Exchange (IDX) website (www.idx.co.id). The dataset used in this study is original and has not been utilized in prior research by the authors. For transparency and replication purposes, the dataset has been uploaded to the Zenodo repository (Anggreni Das et al., 2025), doi: 10.5281/zenodo.17576494 and web address is <https://zenodo.org/records/17576495>. Firm value, the dependent variable, is measured using the simplified Tobin's Q proposed by Wiwattanakantang (2001), calculated as the market value of equity plus the book value of debt divided by total assets. The independent variables represent board characteristics: board independence, board size, board tenure, board education, board meetings, and board age. The mediating variable, corporate reputation, is proxied by Return on Assets (ROA). Operational definitions and measurement formulas are presented in Table 1. To test both direct and mediating effects, panel data regression analysis is applied using three models, followed by the Sobel test to assess mediation significance:

Model 1

$$y = \alpha + \beta_1 Bind + \beta_2 BSize + \beta_3 BTen + \beta_4 BEdu + \beta_5 BMe + \beta_6 BAge + \varepsilon. \quad (1)$$

Table 1. Operationalization of board characteristics and firm-level variables

Variable	Definition	Measurement
Firm Value	Firm value represents the market's perception relative to the replacement cost of assets. A Tobin's Q above 1 signals growth potential, while a value below 1 indicates undervaluation	Tobin's Q = (Market Value of Equity + Market Capitalization – Book Value of Equity) / Total Assets
Board Independence	Independent commissioners are board members who have no affiliation or personal interest with the management, controlling shareholders, or the company itself	The proportion of independent commissioners to the total number of commissioners
Board Size	The total number of commissioners serving on the board of commissioners within a company.	Natural logarithm of the total number of board commissioners
Board Tenure	The time (in years) a commissioner has served on the board	Average tenure of all board commissioners, measured in years
Board Education	The educational background of board commissioners, focusing on financial and business-related expertise	A dummy variable equal to 1 if a commissioner has an educational background or expertise in economics, management, accounting, finance, or business, and 0 otherwise
Board Meetings	The frequency of meetings held by the board of commissioners within a specific period (usually annually)	Total number of board meetings held within a year.
Board Age	The average age of members of the board of commissioners	Natural logarithm of the standard deviation of commissioners' ages
Corporate Reputation (measured by ROA)	Return on Assets (ROA) reflects the firm's financial performance, which is used as a proxy for corporate reputation in this study	ROA = Net Income / Total Assets

Model 2

$$z = \alpha + \beta_1 Bind + \beta_2 BSize + \beta_3 BTen + \beta_4 BEdu + \beta_5 BMe + \beta_6 BAge + \varepsilon. \quad (2)$$

Model 3

$$y = \alpha + \beta_1 z + \varepsilon. \quad (3)$$

3. RESULT

Table 2 presents descriptive statistics for all continuous variables. The mean value of firm value (FV), measured by Tobin's Q, is 10.64 with a standard deviation of 2.22, indicating considerable variation in market valuation of the companies studied. The lowest Tobin's Q value of 5.25 indicates relative undervaluation compared to asset value, while the highest value of 18.72 reflects high market confidence in the company. The Return on Assets (ROA) variable, averages 7.89%, indicating fairly good managerial efficiency in the context of a developing country. The average board independence variable was 43.4%, approaching the best practice threshold of 50%, indicating moderate independent oversight. The average board size was 4.99 members, reflecting a relatively small but potentially efficient structure. The average board tenure was 5.16 years, with some members exceeding

20 years, indicating a balance between experience and the risk of entrenchment. The average board education is 0.62, indicating a high level of education among board members, possibly based on a specific index. Board meetings average 6.11 times per year, indicating active engagement, although high variation may signal internal issues. The average board age is 62.44 years, offering experience but possibly limiting adaptability to change.

Table 3 shows the results of the correlation analysis between variables. FV shows a very weak correlation with all independent variables. The correlation between FV and ROA is 0.060, indicating a very weak positive relationship, so that an increase in financial performance efficiency is only slightly related to an increase in firm value (Novoselova, 2022; Altunbaş et al., 2020). Board independence also has a weak positive correlation with FV (0.044), indicating that the role of independent oversight has not contributed significantly to increasing firm value (Almaskati et al., 2020). Conversely, board size has a weak negative correlation (-0.042), while board tenure has the highest negative correlation (-0.119), indicating that long tenures can reduce oversight effectiveness due to potential entrenchment (Ravid & Sekerci, 2020). Board education (-0.006) and board age (0.054) show very small effects, while board meetings (-0.061) are also negative and weak. The correlations between independent variables are

Table 2. Descriptive statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
FV	333	10.639	2.216	5.251	18.178
ROA	333	7.894	1.969	2.752	14.002
BInd	333	0.434	0.115	0.2	0.833
BSize	333	4.988	1.830	2	10
BTen	333	5.159	3.480	0.5	20.333
BEdu	333	0.617	0.255	0	1
BMet	333	6.113	2.172	1.167	16
BAge	333	62.442	6.575	29.25	75.6

Table 3. Correlation between variables

	FV	ROA	BInd	BSize	BTen	BEdu	BMet	BAge
FV	1.000							
ROA	0.060	1.000						
BInd	0.044	-0.076	1.000					
BSize	-0.042	0.028	-0.168	1.000				
BTen	-0.119	0.117	0.078	0.022	1.000			
BEdu	-0.006	-0.102	0.019	0.192	-0.199	1.000		
BMet	0.054	0.071	-0.078	0.038	0.084	-0.048	1.000	
BAge	-0.061	-0.033	0.006	-0.034	0.252	-0.317	0.092	1.000

also weak, indicating no multicollinearity issues. These results form the basis for the subsequent regression analysis.

H1: Board characteristics positively influence Corporate Reputation.

Based on Table 4, the results of the Chow test and Lagrange Multiplier (LM) test, with p-values of 0.267 and 0.316, respectively, both greater than the 5% significance level ($\alpha = 0.05$), there is insufficient evidence to reject the null hypothesis. This indicates that the Fixed Effect Model (FEM) is not significantly better than the Common Effect Model (CEM), and the Random Effect Model (REM) is also not superior to the CEM. Therefore, both tests consistently recommend using the CEM as the most appropriate panel regression model for this study's data analysis.

Table 4. Model test for H1: Board characteristics and corporate reputation

Test	Statistic	Result	Decision
Chow Test	0.267	Prob. > 0,05	CEM
Lagrange Multiplier Test	0.316	Prob. > 0,05	CEM

Table 5 shows the results of testing the effect of board characteristics on corporate reputation, proxied by ROA. The independent board has a coefficient of -1.415 with a p-value of 0.135. Board size shows a coefficient of 0.082 with a p-value of 0.244. The board's term of office has a coefficient of 0.074 with a p-value of 0.022. The board's education shows a coefficient of -0.860 with a p-value of 0.055. The frequency of board meetings has a coefficient of 0.059 with a p-value of 0.230. The age of the board shows a coefficient of -0.021 with a p-value of 0.177. Based on these results, only the term of office of the board (Bten) variable has a p-value < 0.05 , so hypothesis 1 is partially accepted for the term of office of the board variable and rejected for the other variables.

Table 5. Panel data regression results for H1: Effect of board characteristics on corporate reputation

ROA	Coef.	Std. Err.	t	P> t
Binde	-1.415	0.945	-1.500	0.135
BSize	0.082	0.070	1.170	0.244
BTen	0.074	0.032	2.300	0.022
Bedu	-0.860	0.447	-1.920	0.055
BMeet	0.059	0.049	1.200	0.230

ROA	Coef.	Std. Err.	t	P> t
Bage	-0.021	0.015	-1.350	0.177
FSize	-0.205	0.096	-2.130	0.034

H2: Corporate reputation positively influences Firm Value.

Based on Table 6, the model testing results presented, the Chow test yielded a probability value of 0.014, which is below the 5% significance level ($\alpha = 0.05$). This indicates that the Fixed Effect Model (FEM) is more suitable than the Common Effect Model (CEM). Additionally, the Hausman test produced a probability value of 0.015, also below 0.05, confirming that FEM is more appropriate compared to the Random Effect Model (REM).

Table 6. Model test for H2: Corporate reputation and firm value

Test	Statistic	Result	Decision
Chow Test	0.014	Prob. < 0,05	FEM
Hausman Test	0.015	Prob. > 0,05	FEM

The relationship between corporate reputation (ROA) and firm value shows a coefficient of 0.067 with a p-value of 0.247. A p-value > 0.05 indicates that the effect is not significant, so hypothesis 2 is rejected.

Table 7. Panel data regression results for H2: Effect of corporate reputation on firm value

FV	Coef.	Std. Err.	t	P> t
ROA	0.067	0.058	1.16	0.247

H3: Board characteristics positively influence Firm Value.

The Chow test results show Prob $> F = 0.0001$ (< 0.05), indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman test also shows Prob $> \chi^2 = 0.0084$ (< 0.05), confirming that FEM is more appropriate than the Random Effect Model (REM). Thus, FEM is chosen to assess the effect of variables on FV more accurately.

Table 8. Model test for H3: Board characteristics and firm value

Test	Statistic	Result	Decision
Chow Test	0.0001	Prob. < 0,05	FEM
Hausman Tet	0.0084	Prob. < 0,05	FEM

Table 9 presents the results of the analysis of the influence of board characteristics on firm value. The independent board has a coefficient of -3.124 with a p-value of 0.143. Board size shows a coefficient of 0.297 with a p-value of 0.121. Board tenure has a coefficient of 0.184 with a p-value of 0.108. Board education shows a coefficient of 0.029 with a p-value of 0.976. Board meeting frequency has a coefficient of 0.206 with a p-value of 0.009. The age of the board shows a coefficient of -0.030 with a p-value of 0.424. Based on these results, only the frequency of board meetings (Bmee) has a p-value < 0.05 , so hypothesis 3 is partially accepted for the variable of frequency of board meetings and rejected for the other variables.

Table 9. Panel data regression results for H3: Effect of board characteristics on firm value

FV	Coef.	Std. Err.	t	P> t
Binde	-3.124	2.124	-1.470	0.143
BSize	0.297	0.191	1.560	0.121
BTen	0.184	0.114	1.610	0.108
Bedu	0.029	0.985	0.030	0.976
BMeet	0.206	0.078	2.620	0.009
Bage	-0.030	0.037	-0.800	0.424

H4: The effect of board characteristics on Firm value is mediated by corporate reputation.

Table 10 shows the results of the Sobel test on the role of corporate reputation (ROA) as a mediating variable between board characteristics and firm value. Mediation between board independent board-ROA-firm value has a Z value of -0.910 with a p value of 0.363. Mediation between the board size-ROA-firm value shows a Z value of 0.929 with a p value of 0.353. Mediation between board tenure-ROA-firm value recorded a Z value of 0.941 with a p value of 0.347. Mediation between board education-ROA-firm value had a Z value of 0.030 with a p value of 0.976. Mediation between board meeting frequency-ROA-firm value shows a Z value of 1.059 with a p value of 0.289. Mediation between board age-ROA-firm value records a Z value of -0.658 with a p value of 0.510. Company size-ROA-firm value has a Z value of -0.876 with a p value of 0.381, leverage-ROA-firm value has a Z value of 0.461 with a p value of 0.644, and company age-ROA-firm value has a Z value of -1.036 with a p value of 0.300. All Z values $< |1.96|$ and p values > 0.05 indicate no significant mediating effect, thus rejecting hypothesis 4.

Table 10. Mediation analysis using the Sobel test: ROA as Corporate Reputation

Board Characteristics	Corporate Reputation	Firm Value	Sobel	p-value
BIND	ROA	TQ	-0.910	0.363
BSIZ	ROA	TQ	0.929	0.353
BTEN	ROA	TQ	0.941	0.347
BEDU	ROA	TQ	0.030	0.976
BMEE	ROA	TQ	1.059	0.289
BAGE	ROA	TQ	-0.658	0.510
FSIZ	ROA	TQ	-0.876	0.381
LEVE	ROA	TQ	0.461	0.644
FAGE	ROA	TQ	-1.036	0.300

4. DISCUSSION

The findings of this study make an important contribution to the corporate governance literature by showing that the influence of board characteristics on corporate reputation and firm value is partial and contextual. Results that only partially support the hypothesis confirm that board characteristics do not have a universal impact on reputation or firm value, but are greatly influenced by ownership structure and organizational dynamics. Boards with longer tenures have been shown to strengthen corporate reputation due to accumulated experience and the ability to maintain strategic continuity. This supports the findings of Gharbi and Othmani (2023) and Farooq and Ahmad (2023), who emphasize that the collective experience of the board is an important social capital in building corporate trust and credibility. Conversely, the formal education of the board has not shown a significant contribution, indicating that practical expertise and the relevance of experience are more decisive than academic level alone (Jelic et al., 2021; Singh et al., 2020; Gounopoulos et al., 2021). Other characteristics, including board independence, size, meetings, and age, are not significant. These results suggest that in concentrated ownership firms, control by major shareholders may overshadow governance mechanisms, consistent with second-generation agency theory (Almaskati et al., 2020; Shoham et al., 2020).

Furthermore, the results of the study indicate that corporate reputation measured through ROA does not have a significant effect on firm value, thus rejecting the second hypothesis. This shows that asset efficiency or profitability is not yet a

strong enough signal for investors in assessing a company's reputation. In the context of emerging markets such as Indonesia, investors place greater emphasis on non-financial factors such as transparency, ethical reputation, or social commitment in forming their perception of a company's value (Novoselova, 2022; Sierra-Morán et al., 2024). Thus, these results confirm the limitations of the traditional approach that views financial performance as the sole indicator of reputation, while social and strategic dimensions of reputation are often more relevant in explaining company value.

Meanwhile, board characteristics were found to have a direct influence on firm value in certain aspects, particularly through the frequency of board meetings, which showed a positive relationship. These results reinforce the argument of Gupta et al. (2022) that adequate meeting intensity improves the quality of coordination and oversight of management, which ultimately creates added value for the company. Board meeting frequency indicates that more frequent meetings enhance oversight, coordination, and strategic discussions (Ravid & Sekerci, 2020). However, other variables such as board size and independence do not have a significant effect, indicating that effective governance does not solely depend on formal structure but on the quality of discussion and independence of thought within the board (Demirbag et al., 2021). Board effectiveness depends on competence, engagement, and context, rather than solely on the number of members or tenure (Shoham et al., 2020). Education and age of board directors are still very low, indicating that higher formal

education or older age do not necessarily result in higher firm value, especially in markets dominated by controlling shareholders (Garel et al., 2021; Mollah et al., 2021; Schnatterly et al., 2021).

Interestingly, the mediation test results show that corporate reputation is unable to serve as a connecting mechanism between board characteristics and firm value. This finding rejects the fourth hypothesis and is in line with the research by Xu et al. (2022), which confirms that financial reputation tends to be partial and does not sufficiently explain the relationship between governance and market value. In practice, this relationship is more effective when mediated by non-financial factors such as ethical reputation, strategic innovation, or corporate social responsibility. In other words, companies with good governance do not necessarily obtain high market value if they are unable to build a credible reputation in the eyes of the public.

Conceptually, these results reinforce the argument that corporate governance should be viewed as a system that interacts with social perceptions, rather than merely an internal mechanism. For future research, these findings open up opportunities to expand mediation models using non-financial reputation dimensions, as well as to examine the role of institutional and cultural contexts in strengthening the effectiveness of board characteristics in value creation. Practically, companies need to balance their focus between financial efficiency and broader reputational strategies so that governance excellence can be translated into sustainable market value.

CONCLUSION

This study aimed to analyze the effect of board characteristics on firm value, with corporate reputation as a mediating variable within the two-tier governance system applied in Indonesia. Overall, the results reveal that the influence of board characteristics on both reputation and firm value is not uniform. Certain characteristics, such as board tenure and meeting frequency, demonstrate positive effects, while others, including board size, independence, education, and age, show no significant impact. These findings indicate that governance effectiveness depends not only on structural composition but also on the functional dynamics and quality of interaction among corporate organs.

Within Indonesia's two-tier system context, these findings carry strong conceptual implications. The clear separation between the Board of Commissioners (supervisory function) and the Board of Directors (executive function) makes the success of corporate governance highly dependent on the effectiveness of collaboration between these two entities. The results show that longer board tenure and higher meeting

intensity enhance both corporate reputation and firm value. This suggests that experience and continuous interaction between commissioners and directors strengthen monitoring mechanisms and foster greater market confidence. This outcome aligns with the core principle of the two-tier system, in which separation of duties requires effective communication to ensure consistent and well-controlled strategic decisions. Conversely, characteristics such as independence and board size, despite their prominence in governance literature, do not exhibit significant influence, reinforcing the notion that formal structures do not always reflect substantive effectiveness in a system emphasizing collective oversight like Indonesia's.

Furthermore, these findings highlight the key distinctions between Indonesia and countries operating under a one-tier system, such as the United States or the United Kingdom. In a one-tier system, strategic decisions are more centralized, allowing faster responses to market dynamics but potentially heightening conflicts of interest. In contrast, Indonesia's two-tier model emphasizes stronger supervision and broader accountability, though sometimes at the cost of decision-making efficiency. This research reinforces the idea that the equilibrium between control and coordination is fundamental to governance effectiveness in dual-board systems.

However, the study also finds that corporate reputation, as measured by Return on Assets (ROA) in this study, does not mediate the relationship between board characteristics and firm value. This suggests that financial reputation alone may not sufficiently explain how governance mechanisms translate into market valuation. Within Indonesia's context of concentrated ownership, non-financial dimensions of reputation, such as integrity, social responsibility, and sustainability, may serve as stronger drivers of long-term corporate value. The practical implications of this finding emphasize the need to strengthen the supervisory role of the Board of Commissioners in the two-tier framework so that it functions substantively rather than symbolically. Future studies are encouraged to explore broader dimensions of corporate reputation, including environmental, social, and governance (ESG) aspects, and to conduct cross-country comparisons to better understand how institutional systems moderate the relationship between board characteristics, corporate reputation, and firm value.

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