EQUITY: JURNAL EKONOMI

Vol. 13 No (01): June, 2025
p-ISSN: 1978-3795; e-ISSN: 2721-6721
Posted: 04 February 2025
Accepted: 31 March 2025
Published : 2025-June-03

The Role of Corporate Governance in Accelerating Financial Performance with Debt to Equity Ratio as a Moderating Variable

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Abstract: *This study aims to analyze the influence of corporate governance on profitability, with the debt to equity ratio acting as a moderating variable. The research focuses on 35 manufacturing companies over a period of five years. Purposive sampling was employed to select the total number of manufacturing companies for the study. Data analysis was assisted by SmartPLS 3 software. The results demonstrate that corporate governance has a positive effect on ROA. Firm age also significantly positively influences ROA. Similar outcomes are shown in the relationships between DER and ROA, Market to Book and ROA, and sales and ROA. However, DER does not moderate the relationship between corporate governance and ROA, Market to Book and ROA, or sales and ROA. The role of DER is proven to be a moderator in the relationship between firm age and ROA, and sales and ROA. This study confirms the importance of strong governance practices in enhancing company profitability. Companies should invest in strengthening their governance mechanisms, such as enhancing transparency, improving accountability systems, and ensuring board independence to increase ROA. DER does not always function effectively as a moderator in the impact of corporate governance on ROA. Financial managers should be cautious in using leverage as a tool to enhance profitability. Leverage should be strategically employed, considering other factors such as firm age and market conditions, to optimize its impact on ROA.*

Keywords: Corporate Governance; Profitabilitas; Debt to Equity Rasio; Moderation Effect

JEL : G3, G30, G34

1. INTRODUCTION

In the increasingly competitive and dynamic business world, profitability remains one of the most critical performance measures for companies. The high level of competition demands that companies continually enhance their operational efficiency and adaptability to changes in the external environment. One key to achieving sustainable profitability is by implementing good Corporate Governance (CG) practices. Effective strategic management involves aligning the company's long-term objectives with principles of good governance (Salin et al., 2024). Effective strategic management involves aligning the company's long-term goals with principles of good governance. (Kijkasiwat et al., 2024). This alignment helps the company achieve a balance between risk-taking and optimal resource management. Good corporate governance ensures that every adopted and executed strategy is aligned with the interests of stakeholders, including shareholders, employees, and customers. As a result, the company can maximize its profitability potential while managing risks more effectively.

Improving the quality of corporate governance has become a major issue for companies in Indonesia, especially amidst the development of an increasingly open and competitive capital market. The capital market, increasingly integrated with the global market, demands that companies adopt better governance practices to ensure transparency, accountability, and fairness in their business activities. This becomes crucial as weak governance can lead to mismanagement and potential corruption, which in turn can trigger a financial crisis. In recent decades, the quality of corporate governance (CG) has become a major issue attracting the attention of researchers and practitioners. Good corporate governance is regarded as a mechanism that can reduce conflicts of interest between owners and managers (the principal-agent problem) and ensure that companies are managed with high transparency and accountability (Al-Absy et al., 2021). CG quality plays a crucial role in influencing company performance, especially in developing countries like Indonesia, where the capital market is rapidly growing and has a high level of foreign investment. Previous

research indicates that good CG quality can improve company performance and prevent issues such as wastefulness, mismanagement, and corruption, which are often caused by weak governance. (Kushermanto & Rohman, 2024).

However, the relationship between corporate governance quality and company performance in Indonesia remains a subject of debate. Various studies have shown mixed results; some have found a direct positive relationship between governance mechanisms and company performance. (Atugeba & Acquah-Sam, 2024; Farhan & Almaqtari, 2023; Mohd Noor et al., 2022; Shabbir et al., 2024), while others suggest that this relationship is influenced by various other factors, such as capital structure and company characteristics. (Chow, 2024; Pratama et al., 2021; Salin et al., 2024). In the context of Indonesia, a company's capital structure can play a crucial role in moderating the relationship between corporate governance and company performance. An optimal capital structure, particularly in the context of healthy financing and a controlled proportion of debt, can help companies reduce agency costs and enhance performance through tax benefits optimization and a lower risk of bankruptcy (Pratama et al., 2021). When the relationship between the dependent and independent variables is found to be inconsistent in the literature, a moderating variable such as capital structure can help explain this inconsistency. Capital structure is one of the factors that moderates the relationship between CG quality and company performance. (Syed Anuar et al., 2023). This study aims to examine whether capital structure can strengthen the relationship between CG quality and company performance in Indonesia, using data from non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. This study also focuses on specific company characteristics, such as company size, firm age, market-to-book value, and sales growth, as control variables in the research model. Additionally, investors also need to consider how a company's capital structure can influence performance and strategic risk before making investment decisions. (Najaf et al., 2024).

Decisions related to capital structure play a strategic role in influencing profitability. Capital structure, measured through the Debt to Equity Ratio (DER), has a significant impact on the level of a company's financial risk (Solikhah et al., 2022). In this context, DER can function as a moderating variable that strengthens or weakens the relationship between CG and company profitability. Companies with a healthy capital structure can be more flexible in executing either aggressive or conservative business strategies, depending on market conditions and the external environment. Conversely, companies with high levels of debt face additional pressure that can influence their strategic decisions. However, the relationship between CG, DER, and profitability does not stand alone. Specific company characteristics, such as Firm Age, Market-to-Book Value, and Sales, also serve as control variables that influence this dynamic. Firm age can reflect stability and experience, which can influence how well a company implements governance practices. MBV, as an indicator of market value compared to a company's book value, reflects investor perceptions of the company's growth potential, while sales growth illustrates the company's ability to increase market share and operational efficiency.

2. LITERATURE REVIEW

2.1 Agency Theory

The agency theory proposed by Jensen and Meckling (1976) relates to the agreements among members within a company. This theory explains the monitoring of various types of costs and enforces the relationship between these groups. Management will attempt to maximize its own welfare by minimizing various agency costs, which is one of the hypotheses in agency theory. Agency theory assumes the existence of a conflict of interest between the owners (shareholders) and managers (agents), where agents tend to prioritize their own interests over those of the owners (Chacko & Padmakumari, 2024). Good corporate governance functions to mitigate these agency issues through the implementation of strong oversight mechanisms. Capital structure also acts as a tool to reduce agency conflicts, as the optimal use of debt can limit managerial opportunistic behavior through stricter external control by creditors (Mousa et al., 2023).

2.2 Corporate Governance

Corporate Governance (CG) is a system used to direct and manage company activities. This system has a significant influence in determining business objectives and efforts to achieve goals within a company. Corporate governance (CG) plays a key role in a strategic context because good governance serves as a foundation for companies to develop and implement effective strategies. In strategic management, CG acts as a mechanism that links strategic decision-making with stringent oversight, transparency, and accountability (Datsenko et al., 2023)

2.3 Profitability

Profitability is a financial measure used to evaluate a company's ability to generate earnings from its operations, whether from sales, assets, or equity. (Heckenbergerová & Honková, 2023). Profitability ratios assess the extent to which a company successfully generates profit from its operational activities (Kengere et al., 2023). This is important for measuring the success of a company's strategy in achieving financial objectives. When profitability ratios decline, investors perceive the company as inefficient in managing its resources, which can lead to a decrease in stock prices and investor confidence (Smirnov, 2021).

2.4 Debt to Equity Ratio

The *Debt to Equity Ratio* (DER) is a financial ratio used to measure a company's capital structure by comparing the total debt to the total shareholders' equity. The DER provides an overview of the extent to which a company relies on debt financing compared to its equity capital. This ratio is crucial in financial analysis as it offers insights into the company's financial risk and capital stability. A high DER indicates that the company relies more on debt for financing rather than equity, suggesting a higher debt obligation. This can increase the risk of bankruptcy if the company is unable to meet its debt obligations (Xie, 2024).

2.5 Firm Age

Firm Age, or the age of a company, is a measure that indicates how long a company has been in operation since its establishment. (Chacko & Padmakumari, 2024). In financial analysis and business strategy, company age is often used as a control variable because it can influence a company's performance and stability in various ways. Older companies typically have more experience and operational stability compared to newly established firms. This experience includes a deeper understanding of the market, customers, and operational efficiencies, which can enhance the competitiveness of the company (Quoc et al., 2024).

2.6 Market to Book Value

The Market-to-Book Ratio is a ratio used to compare the market value of a company to its book value. (Wong et al., 2024). The Market-to-Book Value (MBV) is calculated by dividing a company's market capitalization by its book value. This ratio indicates whether the market values the company higher or lower than its net asset value. In financial research, Market to Book Value is often used as a control variable to assess how market perceptions of a company's performance and intrinsic value can influence the relationships between the main variables in the study (Urbański, 2021).

2.7 Sales

Sales is the total revenue generated by a company through the sale of products or services over a specific period (Ullah et al., 2020). Sales is an important indicator for measuring a company's operational success and serves as the foundation for various financial decisions, such as cash management, investment planning, and marketing strategy. (Phuong & Hung, 2020; Solyukova et al., 2023).

2.8 Hypothesis

2.8.1 The Influence of Corporate Governance on Profitability

Agency theory, which emphasizes conflicts of interest between shareholders and management, highlights the critical role of effective corporate governance in mitigating these

agency problems by enhancing oversight and control over management decisions. Mechanisms such as an efficient board of directors, financial information transparency, and performance-oriented reward policies are expected to motivate management to act in the interests of shareholders. Therefore, it is hypothesized that companies with strong implementation of corporate governance (CG) are likely to exhibit higher profitability levels due to more optimal management of company resources and reduced agency costs (Atugeba & Acquah-Sam, 2024; Farhan & Almaqtari, 2023; Mohd Noor et al., 2022; Shabbir et al., 2024).

2.8.2 Firm Age, Market to Book, and Sales as Control Variables

In the context of agency theory, firm age is often considered an indicator that reflects experience and stability in operational management and strategy. Companies that have been operating for a longer duration typically have more established procedures, stronger relationships with stakeholders, and a better understanding of the market. From this perspective, older companies can be hypothesized to have a better ability to manage conflicts of interest between shareholders and managers, which is a primary focus of agency theory.

In signaling theory, the market-to-book ratio (MTB) is often used as an indicator that reflects the market's perception of the company's future value compared to its book value. This ratio mirrors investor expectations about the company's growth potential and profitability. A high MTB ratio indicates that the market anticipates a good return on their investment, which is often based on projections of future profits. Thus, the proposed hypothesis in this context is that a higher MTB ratio is positively related to profitability.

In the framework of signaling theory, sales can be considered a primary signal that companies send to the market regarding their health and growth potential. High sales volumes are often interpreted by investors and other stakeholders as an indication of positive market reception to the company's products or services (Mansour et al., 2022). As a result, increased sales may signal operational strength and the effectiveness of marketing strategies, encouraging investors to value the company's future prospects higher. Therefore, the hypothesis that can be proposed is that there is a positive relationship between sales and profitability.

2.8.3 The role of DER as a moderator of CG and Profitability

In the context of signaling theory, the debt-to-equity ratio (DER) can moderate the relationship between good corporate governance (CG) and profitability. A high DER is often signaled as financial leverage that can enhance return on equity through a multiplier effect, provided that the borrowed funds are used efficiently. In this case, strong corporate governance may serve as a catalyst ensuring that leverage is utilized in a way that maximizes value for shareholders. Additionally, in companies with low DER, a significant increase in profitability through the use of financial leverage may not be evident due to a lack of borrowing need, which reduces the potential for the multiplier effect. This underscores the importance of strong corporate governance as a moderating mechanism in leveraging financial leverage to enhance profitability without exposing the company to excessive financial risk. The findings of this study are in line with (Mansour et al., 2022). The Debt to Equity Ratio (DER) can act as a moderating variable that strengthens the relationship between good corporate governance (CG) and profitability. According to this theory, a high DER increases the potential for agency conflicts between shareholders and bondholders, as the higher risk of bankruptcy can prompt management to make riskier decisions.

3. METHOD

3.1 Types of Research and Sample Determination

This research is a quantitative study. The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample represents a subset of the population, consisting of selected members from the total population. The sample selection in this study follows a purposive sampling method. The criteria for sample selection established by the researcher are as follows:

3.1.1 Companies listed on the Indonesia Stock Exchange (IDX) that have published complete annual reports during the research period from 2017 to 2023.

3.1.2 Companies that provide accessible annual reports via the IDX website (www.idx.co.id) or their official company websites.
3.1.3 Companies with complete data related to the variables used in this study.

3.2 Type of Data

The type of data used in this study is secondary data, collected through documentation by utilizing data from Bloomberg at the Bloomberg Laboratory of Diponegoro University for the period 2017–2023, which is available as a fundamental reference. Data collection is conducted using research instruments, and data analysis is quantitative/statistical in nature, aiming to test the established hypotheses.

3.3 Analysis Techniques

The analytical method used in this study is Partial Least Squares (PLS) analysis, assisted by SmartPLS 3.0 software. The steps in conducting data analysis are as follows:

3.3.1 Performing calculations on the data obtained from Bloomberg.
3.3.2 Entering data from the measurement results of variables and insurance companies selected as the research sample, ensuring that the data is ready for processing.
3.3.3 Calculating and analyzing the data to generate conclusions aligned with the research objectives.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 1. Deskriptive Statistic

Variable	Observation	Min	Max	Mean	Std.dev
CG	175	38.62	99.62	75.87	12.56
Firm Age		1	109	3.16	0.78
Market to book		1.89	9.33	6.02	1.83
Sales		20.90	32.34	27.50	2.63
DER		0.00	5.66	0.43	0.78
ROA		-0.45	0.46	0.06	0.11

Source: SmartPLS Data Processing, 2025

From the descriptive statistics table provided, we can observe several key characteristics of the variables studied, particularly concerning corporate governance (CG), firm age, market-to-book ratio (MTB), sales, debt-to-equity ratio (DER), and return on assets (ROA). Corporate governance, with an average score of 75.87 and a relatively moderate variation (standard deviation of 12.56), indicates a fairly high level of governance implementation among the companies studied, with limited variation across firms. The score range from 38.62 to 99.62 suggests that while some companies exhibit strong governance practices, others have relatively weaker governance structures.

Meanwhile, firm age averages 3.16 years, with a very wide range from 1 to 109 years, reflecting the inclusion of both very new and well-established companies in the dataset. The market-to-book ratio (MTB) has an average value of 6.02 with a relatively broad variation (1.83), indicating significant differences in market valuation relative to book value among the companies. Sales exhibit an average value of 27.50 with low variation (2.63), suggesting a stable level of sales among the firms. The DER, with a very low average of 0.43 and a small variation (0.78), indicates that these companies tend to rely less on leverage for their financing. Finally, ROA, with an average of 0.06 and a variation of 0.11, shows that, overall, these firms have a moderate ability to generate profits from their assets. The companies in this sample tend to be managed with good governance practices, operate with low leverage, and generate profits from their assets with moderate efficiency. However, there are significant differences in firm age and market valuation relative to book value.

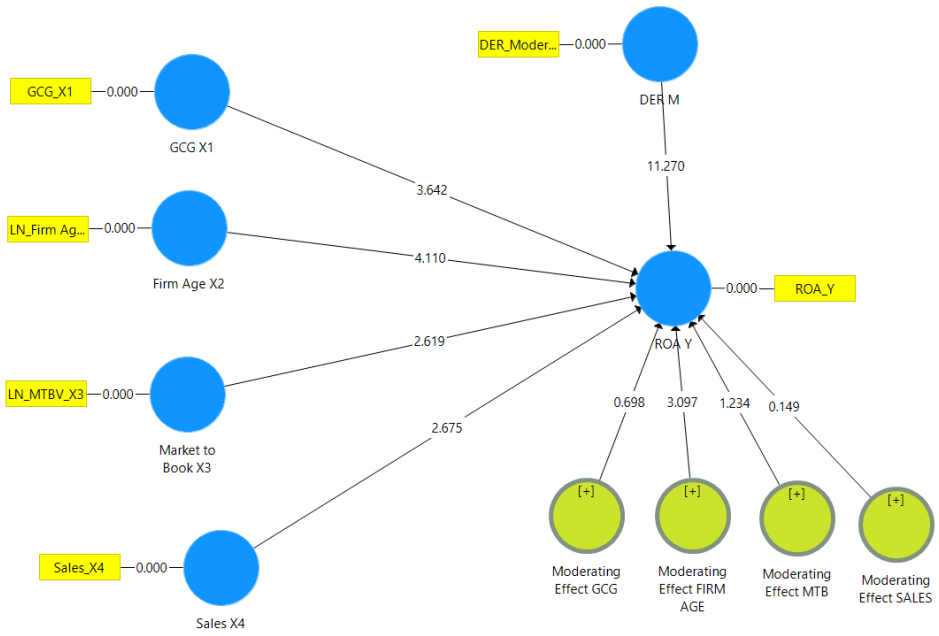

Figure 1. Structural Equation Modeling
Source: SmartPLS Data Processing, 2025

The moderation model using Partial Least Squares (PLS) is applied to analyze the effects of several exogenous variables, namely Corporate Governance (CGC X1), Firm Age (Firm Age X2), Market to Book Ratio (Market to Book X3), and Sales (Sales X4) on the endogenous variable Return on Assets (ROA Y). In this model, the Debt to Equity Ratio (DER M) is used as a moderation variable to test whether the strength and direction of the relationship between the independent variables and ROA change when the company's leverage level is altered.

Below is a detailed analysis of the research findings, with a particular focus on the moderating role of Debt-to-Equity Ratio (DER). Based on the Structural Equation Modeling (SEM) depicted in Picture 1, DER (Debt-to-Equity Ratio) serves as a moderating variable affecting the relationship between Corporate Governance (CG), Firm Age, Market-to-Book Ratio (MTB), Sales, and Return on Assets (ROA). Moderation occurs when the strength or direction of a relationship between independent variables (such as corporate governance or firm age) and the dependent variable (ROA, a measure of profitability) changes based on another variable, in this case, DER. Thus, DER acts as a conditional factor that influences whether certain independent variables have stronger or weaker impacts on the firm's profitability.

Moderation of Corporate Governance by DER. CG showed a direct positive effect on ROA, indicated by the coefficient value of 3.642. When moderated by DER, this suggests that firms with better corporate governance potentially experience higher profitability if they manage their leverage effectively. Companies with strong corporate governance structures tend to use debt more efficiently, minimizing agency problems and improving management efficiency, which ultimately boosts profitability. Conversely, companies with high DER (excessive leverage) might weaken or negate the positive influence of CG, suggesting a critical balance between good governance and debt management.

Moderation of Firm Age by DER. Firm Age showed a moderate impact (coefficient: 0.411). With DER acting as a moderator, it suggests that the beneficial effect of firm age on profitability depends strongly on financial structure. Mature firms typically have stable financial practices, which makes effective leverage management (optimal DER levels) essential to enhancing ROA. Younger firms, with less established creditworthiness, might experience negative effects from high DER, as excessive debt can lead to financial instability and reduce profitability.

Moderation of Market-to-Book Ratio (MTB) by DER. MTB had a notable influence with a coefficient of 2.619, indicating firms valued highly by the market generally show higher

profitability. The moderating effect of DER highlights that market valuation's positive impact on profitability is highly contingent on maintaining optimal debt levels. A company with a high market valuation but simultaneously high leverage could face substantial risk, leading investors to reevaluate its profitability prospects negatively. Hence, managing leverage levels prudently becomes crucial for sustaining the market valuation's positive impact on profitability.

Moderation of Sales by DER. Sales (coefficient: 2.675) strongly influence profitability, as increased sales typically lead to higher profit margins. The moderation effect of DER indicates the essential role of capital structure management—firms that rely excessively on debt (high DER) may find their profitability eroded by interest expenses, even if sales increase significantly. Therefore, an optimal capital structure must be maintained to leverage sales growth effectively into increased profitability.

DER moderation underscores the strategic necessity of debt management in influencing the effectiveness of other variables such as governance, firm age, market perception, and sales. Optimal leverage enhances the beneficial impacts of these variables on ROA. DER acts as a double-edged sword; while it can amplify positive impacts, excessive leverage can quickly deteriorate financial health, especially for younger or growth-oriented firms. Especially investors and managers should carefully consider DER when interpreting profitability indicators. High-performing firms might lose profitability gains if debt management becomes inefficient or overly aggressive.

The moderating role of DER in the given model highlights its critical role as a conditional variable affecting the profitability of firms. Proper debt management (optimal DER) allows firms to maximize the beneficial impacts of corporate governance, market valuation, firm age, and sales. Conversely, mismanagement or excessively aggressive leverage could severely reduce profitability and negatively impact the firm's sustainability. Therefore, understanding and maintaining an optimal DER is critical for enhancing firm profitability in line with corporate governance effectiveness, firm maturity, market perceptions, and sales growth.

4.2 Hypothesis Test and Moderated Regression Analysis

Tabel 2. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
CG X1 -> ROA Y	0.365	0.361	0.100	3.642	**0.000**
Firm Age X2 -> ROA Y	0.400	0.412	0.097	4.110	**0.000**
Market to Book X3 -> ROA Y	0.136	0.129	0.052	2.619	**0.009**
Sales X4 -> ROA Y	0.187	0.174	0.070	2.675	**0.008**
DER M -> ROA Y	0.694	0.699	0.062	11.270	**0.000**
Moderating GCG -> ROA Y	0.153	0.160	0.049	3.097	**0.002**
Moderating Firm Age -> ROA Y	0.061	0.058	0.087	0.698	**0.486**
Moderating MTB -> ROA Y	0.040	0.044	0.033	1.234	**0.218**
Moderating Sales -> ROA Y	0.009	0.002	0.057	0.149	**0.882**

Source: output smartPLS, 2025

4.3 Discussion

4.3.1 The Influence of Corporate Governance on Profitability

The relationship between Corporate Governance (CGC X1) and Return on Assets (ROA Y) has a positive path coefficient of 0.365 with a sample mean of 0.361. The standard deviation of this estimate is 0.100, indicating variation in the estimates resulting from the bootstrapping process. The resulting T-Statistic is 3.642, which is statistically significant as the related p-value is 0.000. This indicates strong evidence that Corporate Governance has a significant positive influence on Return on Assets within the studied sample. This suggests that companies with better governance tend to have more efficient asset performance, reinforcing the view that good governance practices can contribute to the operational efficiency and effectiveness of a company.

The analysis results show a significant positive influence between Corporate Governance (CGC) and Return on Assets (ROA), supporting the research hypothesis that CGC affects ROA. Higher levels of CG lead to an increase in ROA, which could be due to various factors such as higher management costs or investments in ethical and sustainable practices that yield financial returns. Furthermore, the implementation of strong CG practices can enhance the company's reputation in the eyes of investors and the market, facilitating access to capital at lower costs. This enables companies to invest in profitable projects, which directly enhances profitability (Atugeba & Acquah-Sam, 2024; Farhan & Almaqtari, 2023; Mohd Noor et al., 2022; Shabbir et al., 2024). Additionally, compliance with high corporate governance standards is often associated with better risk management, reducing the likelihood of financial losses and enhancing the financial stability of the company. From this, it can be hypothesized that there is a positive relationship between the implementation of effective corporate governance and increased company profitability. This relationship illustrates the importance of a good oversight structure in creating added value for shareholders and improving the financial performance of the company.

4.3.2 Firm age, market to book, and sales as control variables

Firm Age shows a significant positive relationship with Return on Assets (ROA) with a path coefficient of 0.400 and a sample mean of 0.412. With a standard deviation of 0.097 and a T-Statistic value of 4.110, this indicates that the results are statistically significant, as evidenced by a p-value of 0.000. This suggests that older companies tend to have higher ROA, which can be interpreted as a result of accumulated experience and improved operational efficiency over time. For the Market to Book variable, the relationship shown with ROA is positive with a path coefficient of 0.136 and a sample mean of 0.129. Its standard deviation is 0.052 with a T-Statistic of 2.619, indicating statistical significance with a p-value of 0.009. This illustrates that companies with a higher market value compared to their book value tend to have better ROA, indicating a positive market perception of the future value of these companies. The findings of this study are in line with (Mansour et al., 2022).

Meanwhile, the relationship between Sales and ROA is represented with a path coefficient of 0.187 and a sample mean value of 0.174. The standard deviation of this relationship is 0.070 with a T-Statistic of 2.675, indicating statistical significance with a p-value of 0.008. This suggests that higher sales levels correlate with an increase in ROA, which can be interpreted to mean that greater sales volumes help improve efficiency. In the context of agency theory, the age of a company is often considered an indicator that reflects experience and stability in operational management and strategy. Companies that have been in operation for a longer period typically have more established procedures.

4.3.3 The role of DER as a moderator of CG and Profitability

In the context of signaling theory, the debt-to-equity ratio (DER) can moderate the relationship between good corporate governance (CG) and profitability. A high DER ratio is often indicated as financial leverage that can enhance return on equity. The Debt to Equity Ratio (DER) acts as a moderating variable in the relationship between Corporate Governance (CG) and Return on Assets (ROA), which is a measure of profitability. The moderation path coefficient between CG and ROA when moderated by DER is 0.061 with a sample mean of 0.058. The standard deviation is 0.087. The T-Statistic for this relationship is 0.698, resulting in a p-value of 0.486. A high p-value (greater than 0.05) indicates that DER is not statistically significant in moderating the relationship between CG and ROA. This suggests that the influence of DER as a leverage factor is not strong enough to alter or reinforce the impact of CG on profitability as measured by ROA in the studied sample. DER does not provide significant moderating impact on the relationship between good corporate governance (CG) and profitability (ROA). This might mean that independent of the company's debt level, good governance practices have a consistent effect on corporate profitability, unaffected by the company's capital structure. This could indicate that other factors may be more important in influencing how CG affects ROA compared to the company's financial leverage. In the framework of strategic management, the use of debt (as part of the capital structure) can be viewed as a strategic tool to enhance management discipline. With

higher levels of debt, managers are likely to be more cautious in decision-making due to the pressure of debt obligations and strict oversight from lenders. This can ultimately improve operational efficiency and company performance.

5. CONCLUSION AND SUGGESTION

CONCLUSION

This study reveals the importance of strong governance practices in enhancing corporate profitability, emphasizing the positive and significant impact of corporate governance on Return on Assets (ROA). From the analysis conducted, it is evident that companies with good corporate governance practices tend to have more efficient asset performance. Factors such as company age, market to book ratio, and sales also play a crucial role as control variables that significantly affect ROA, indicating that longer operational experience, positive market perceptions, and high sales levels can strengthen profitability. However, the study also found that the Debt to Equity Ratio (DER) is not effective as a moderating variable in altering the impact of corporate governance on ROA, indicating that leverage does not play a significant role in influencing this relationship within the context of the sampled study.

SUGGESTION

Based on these findings, it is recommended for companies to invest more deeply in the development and maintenance of good governance practices. Enhancing transparency, improving accountability systems, and ensuring the independence of the board are advised to increase governance effectiveness. Given that the Debt to Equity Ratio (DER) does not demonstrate significant moderating effects, financial managers are advised to be more cautious in using leverage as a tool to enhance profitability. Leverage should be used strategically, taking into account other factors such as company age and market conditions.

The study confirms that robust corporate governance (CG) significantly improves return on assets (ROA), thereby enhancing overall corporate profitability. Companies with effective governance structures have better management efficiency, which translates into higher financial performance. Debt management is crucial but not a strong moderator, while debt management (measured through the debt-to-equity ratio, DER) is important, it does not significantly alter the impact of corporate governance on profitability. This indicates that, regardless of a company's debt levels, strong governance consistently improves financial outcomes.

Firm Age, Market Valuation, and Sales Volume are significant, older firms, those with higher market-to-book values, and those with greater sales volumes are associated with better profitability. These factors indicate established operational efficiency, positive market perceptions, and effective sales strategies, all of which contribute to better financial performance. Recommendations for manufacturing companies, invest in corporate governance, companies should prioritize the development and maintenance of high-quality governance frameworks. This includes enhancing transparency, ensuring board independence, and improving accountability systems. Such investments not only boost profitability but also strengthen investor confidence.

Despite the non-significant moderating effect of DER, manufacturing firms should manage their debt levels strategically. Avoiding over-leverage is crucial, as excessive debt can impose financial strain and overshadow the benefits of good governance. Companies should focus on strategies that enhance their market valuation and sales volumes. This can be achieved through marketing, innovation, and expanding market reach, which directly contribute to higher profitability. Given the positive impact of firm age on profitability, companies should strive for long-term operational stability and efficiency. This can involve investing in technology, employee training, and process improvements that enhance productivity over time.

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