Financial Ratios Governance and Business Risk as Determinants of Corporate Efficiency in Emerging Markets

Henny Setyo Lestari
Faculty of Economic and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: henny_setyo_lestari@trisakti.ac.id

Maria Carmelia Widiastuti
Faculty of Economic and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: maria.c@trisakti.ac.id

Rahmadina Ardelia
Faculty of Economic and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: 022001901144@std.trisakti.ac.id

M. Hussin Abdullah
Malaysian Institute of Management; Selangor, Malaysia
E-Mail: mhussin@edidik.edu.my

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ABSTRACT

Efficiency is a critical indicator of a company's performance, reflecting its ability to utilize resources effectively. Previous studies on efficiency have often presented inconsistent findings regarding the influence of financial ratios, corporate governance, and business risk. This study aims to analyze the effect of financial ratios (leverage, liquidity, profitability), good corporate governance, and business risk on the efficiency of manufacturing companies in Indonesia listed on the Indonesia Stock Exchange from 2017 to 2023. The study uses a sample of 67 manufacturing companies selected through purposive sampling, yielding 469 observations over seven years. Panel data regression analysis was employed using EViews 9 software to test the hypotheses. The results indicate that leverage and business risk positively influence company efficiency, while liquidity, profitability, and governance do not show a significant effect. These findings suggest that financial decision-making and risk management play a pivotal role in enhancing efficiency. The study highlights the importance of managing leverage and mitigating business risks to optimize efficiency. Investors should consider these factors when evaluating potential investments. Future research should incorporate additional variables to provide a more comprehensive understanding of efficiency determinants.

Keywords: *Business Risk, Company Efficiency, Leverage, Liquidity, Profitability*

ABSTRAK

Efisiensi merupakan indikator penting kinerja perusahaan, yang mencerminkan kemampuannya dalam memanfaatkan sumber daya secara efektif. Penelitian sebelumnya tentang efisiensi sering kali menyajikan temuan yang tidak konsisten mengenai pengaruh rasio keuangan, tata kelola perusahaan, dan risiko bisnis. Penelitian ini bertujuan untuk menganalisis pengaruh rasio keuangan (leverage, likuiditas, profitabilitas), tata kelola perusahaan yang baik, dan risiko bisnis terhadap efisiensi perusahaan manufaktur di Indonesia yang terdaftar di Bursa Efek Indonesia dari tahun 2017 hingga 2023. Penelitian ini menggunakan sampel sebanyak 67

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perusahaan manufaktur yang dipilih melalui purposive sampling, menghasilkan 469 observasi selama tujuh tahun. Analisis regresi data panel digunakan dengan menggunakan perangkat lunak EViews 9 untuk menguji hipotesis. Hasil penelitian menunjukkan bahwa leverage dan risiko bisnis berpengaruh positif terhadap efisiensi perusahaan, sedangkan likuiditas, profitabilitas, dan tata kelola tidak menunjukkan pengaruh yang signifikan. Temuan ini menunjukkan bahwa pengambilan keputusan keuangan dan manajemen risiko memainkan peran penting dalam meningkatkan efisiensi. Penelitian ini menyoroti pentingnya mengelola leverage dan memitigasi risiko bisnis untuk mengoptimalkan efisiensi. Investor harus mempertimbangkan faktor-faktor ini ketika mengevaluasi potensi investasi. Penelitian di masa mendatang sebaiknya menyertakan variabel tambahan untuk memberikan pemahaman yang lebih komprehensif tentang faktor penentu efisiensi.

***Kata kunci**: Risiko Bisnis, Efisiensi Perusahaan, Leverage, Likuiditas, Profitabilitas.*

INTRODUCTION

All companies present financial reports that are intended to be used to describe and illustrate and illustrate their performance, serving as a vital link between company management and stakeholders (investors). Financial reports should be submitted honestly to users, free from manipulation, with no intentional or unintentional errors. Financial reports provide valuable insights, including financial ratios that enhance the ability to assess a company's financial condition. According to Alarussi (2021), different methods, such as cross-sectional and comparative analysis, are used to evaluate a company's financial position. One of the ratios to consider when investing in a company is the liquidity ratio, which is used to measure the company's ability to pay off short-term debts owned by the company which can see efficiency or not in the company, besides that there is leverage that can be useful for analysis, planning and financial control. The profitability ratio is also a ratio that is often used by investors to measure and assess a company's ability to generate income (profit) relative to revenue, balance sheet assets, operating costs, and shareholder equity over a certain period of time. This can be a consideration in making investments in a company.

Previous research by Yuniwiansyah & Rahayu (2022), found that the results indicated of the study showed that leverage has a positive effect on company efficiency, because it allows for increased capital for investment, reduces capital costs, creates incentives for management to improve performance, and encourages optimization of asset use, so that it can increase the profitability and productivity of the company as a whole. Meanwhile, another study by Gantino & Iqbal (2017), stated that leverage has a negative effect on company efficiency, because excessive use of debt can increase financial risk, increase interest expenses that must be paid, and reduce the company's flexibility in dealing with unstable market conditions. This can cause management to focus more on fulfilling debt obligations than operational efficiency. Another study by Devismara et al., 2022), stated that liquidity has the positive effect because high levels of liquidity, such as cash accumulation, do not directly increase sales and even have the potential to cause idle assets, thereby reducing company efficiency. Kurniawan & Samhaji (2020), showed that there is a negative effect of liquidity on company efficiency, because excessive liquidity can reduce company efficiency because funds that should be invested in growth and innovation are actually parked in cash, resulting in lost potential profits and waste of resources. Oktaviarni et al. (2019), stated the results of the study that there is a positive effect of profitability on company efficiency because when profitability is higher in a company, it will reduce agency costs and this motivates management to make sufficient efforts to increase efficiency by using company assets wisely to generate income. Abubakar (2021), stated that profitability has a negative effect on company efficiency because high ROE does not always reflect optimal operational efficiency. This is due to the fact that companies pursuing high profitability often make excessive cost cuts, sacrificing the innovation and investment needed for long-term efficiency.

Companies in Indonesia continue to strive to compete effectively in emerging markets. Now, stability and sustainability are the main challenges faced by companies in Indonesia. This is fundamental because companies must have more knowledge about the internal and external environment in which the company operates (Irianto & Sutrisno, 2024). Achieving efficiency in company operations must still pay attention to business risks arising from certain aspects that can harm stakeholders of a company. The current goals of Indonesian companies depend on the ability of managers/investors to identify efficiency status, for example related financial ratios as parameters. Good corporate governance is also one of the elements to increase economic efficiency which includes a series of correlations between internal and external parties of the company. According to Situmorang & Simanjuntak (2019), in order to achieve the concept of Corporate Governance, it is necessary to propose in order to achieve transparency in company management for all users of financial reports, if this concept is implemented properly, the trust of both investors and other parties will increase which will have an effect on increasing company performance so that it can benefit various parties.

While various studies have explored individual financial ratios, good corporate governance, and business risks, the findings often remain inconclusive or contradictory. For instance, Yuniwiansyah & Rahayu (2022), identified a positive relationship between leverage and company efficiency, whereas Gantino & Iqbal (2017), noted its negative impact. Similarly, studies on liquidity and profitability have shown conflicting results regarding their influence on operational efficiency (Kurniawan & Samhaji, 2020; Devismara et al., 2022). Although corporate governance has been extensively studied, most research focuses on developed markets, leaving gaps in understanding its role in emerging economies like Indonesia. Furthermore, business risk has been relatively underexplored in the context of company efficiency, particularly in the Indonesian manufacturing sector. These inconsistencies and limited investigations indicate the need for a more comprehensive and integrative analysis of these variables. Based on previous studies, there are differences that indicate that there has been no consistent achievement, so this study is limited to the variables of financial ratios, business risk, Good Corporate Governance on company efficiency. Therefore, this study addresses these gaps by incorporating financial ratios, corporate governance, and business risk as determinants of efficiency in Indonesian manufacturing companies. This study adds two independent variables that have not been in previous studies, namely business risk and good corporate governance. The data used in this study uses secondary data and uses the purposive sampling method in collecting data sourced from financial reports and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) through the website www.idx.co.id during the period 2017 - 2023 to process data. The purpose of this study is to determine the impact of financial ratios, good corporate governance, and business risks on company efficiency, providing insights for investors.

LITERATURE REVIEW

Company efficiency is an activity ratio that can measure how effective and efficient a company is in achieving its goals, namely profit. High company efficiency indicates that the company's condition is said to be healthy and the company has good performance (Mutasowifin & Dwitaningsih, 2022). Company Efficiency is an activity ratio that can measure how effective and efficient the company is in using assets to generate profit from its sales (Supriono, 2022; Syahputra, 2024). Company efficiency is measured through the assets turnover ratio (Alarusi & Alhaderi, 2018). If the company is able to use assets effectively and efficiently, there will be no idle assets. High company efficiency indicates that the company's condition is said to be healthy and the company has good performance (Fisena & Widjaja, 2020). In line with signaling theory, a high efficiency ratio is good news for the company to investors (Puspita et al., 2021).

Leverage is a company's ability to pay its financial obligations, both short-term and long-term (Saputri & Giovanni, 2021). Leverage refers to the amount of debt a company uses to finance investments and is a key component of capital structure. Internal resources are often insufficient, requiring managers to seek external funding. The choice between debt and equity involves a trade-off between business and financial risks. According to trade-off theory, firms seek an optimal debt level by balancing tax benefits with bankruptcy risks. Leverage can enhance managerial efficiency by committing the firm to loan repayments, reducing cash flow, and encouraging discipline. In this study, leverage is measured using the debt-to-asset ratio, which reflects the proportion of funds from creditors. Research by Alarussi (2021), found that leverage negatively affects company efficiency, as excessive debt increases financial risk and inefficient asset utilization. This supports the argument that excessive reliance on debt can elevate financial risk, impacting overall firm performance. Thus, firms must carefully consider their debt levels to maintain financial stability.

Liquidity is the company's ability to pay off short-term debt (Alarussi & Ahaderi, 2018). Another definition of liquidity is the condition of a business organization to determine its ability to meet long-term debt and short-term debt needs (Guerrieri & Lorenzoni, 2017). Liquidity can help companies avoid certain situations such as selling assets at low prices and can reduce the possibility of bankruptcy (Schwarz & Pospíšil, 2018; Wijaya et al., 2024). Liquidity in this study is measured by the current ratio which is used to determine the company's ability to meet its short-term responsibilities (Zutter & Smart, 2022). It has been argued that for a business to survive, the company must have a level of liquidity that is neither excessive nor inadequate. Little liquidity can put a company at risk of bankruptcy, but too much cash in a company can result in poor utilization of resources and the business is likely not to get the expected return on assets. The results of the study showed that there was a negative effect of liquidity on company efficiency. Although liquidity can pay off the company's short-term obligations, if the company has a lot of liquidity, it can affect the company's efficiency because the company loses the value of money if it is not used properly .

Profitability is the company's ability to make a profit by using the resources it has (Alarussi & Alhadiry, 2018). Profitability can also indicate the company's performance in maintaining or developing a business in the futureProfitability is a key factor in management success, shareholder satisfaction, investor appeal, efficiency, and sustainability. Cost inefficiency can harm financial performance, reducing company value and growth (Ilyas & Rajasekaran, 2019). Higher profitability lowers agency costs and motivates management to enhance efficiency by optimizing asset use for income generation. This study measures profitability using return on equity (ROE), which assesses a company's ability to generate profits from equity by comparing net income with equity. Akhter (2018), found that profitability positively affects company efficiency, indicating ROE plays a role in efficiency improvement. Managers are driven to enhance efficiency when profitability increases. Greater efficiency reduces costs, leading to higher profitability. Efficient cost management strengthens financial performance, supporting long-term growth and stability.

The board of directors is tasked and responsible collegially to manage the company. Each member of the board of directors has their own duties and authorities, so that they can carry out tasks and make decisions based on the division of tasks and authorities. However, the implementation of these tasks and decisions is a shared responsibility. The size of the board of directors is a key factor influencing company performance. It must align with the company's needs and growth, ensuring effective decision-making. The board should be structured to enable independent action, free from conflicts of interest that might hinder their tasks (Daniri, 2018). However, there is no universally optimal board size; it can differ across countries due to cultural variations (Zabri et al., 2016; Arslan & Alqatan, 2020). From an agency theory perspective, a larger board may help mitigate agency problems as more members scrutinize management actions. A bigger board brings diverse expertise and skills, enhancing cognitive conflict and decision-making quality. The collective knowledge and experience of board members can improve the company's ability to manage operations. Studies, such as by Moussa (2018), support this, showing a positive relationship between board size and company efficiency, indicating that a well-composed, larger board contributes to better company performance.

Business risk is defined as an uncertainty in the projected return from the capital invested in the company (Galingging, 2024). Companies with high business risks tend to make low investments because high business risks have an impact on the uncertainty of the company's profitability level in the future, which may create limited internal funds (Erkaningrum, 2013; Puspitasari et al., 2024). Business risk is the risk arising from fluctuations in a company's revenue and operating costs that cause uncertainty about its future profitability. Business risk is the condition of the company related to the rise and fall in profits. Companies that experience fluctuations in their profits face uncertainty about their ability to pay their loans or debts, so companies that have high business risks tend to avoid debt in their financing (Jill & Houmes, 2014).

This study is expected to provide information and considerations for companies and investors who wish to increase the company's financial performance. This study is also a development of previous research conducted by Alarussi (2021). The difference in this study is that there is an addition of independent variables, namely business risk and good corporate governance. The results of the study will be useful for related parties, including management, shareholders, financial analysts and investors. Therefore, the conceptual framework in this study can be visualized as in figure 1 below:

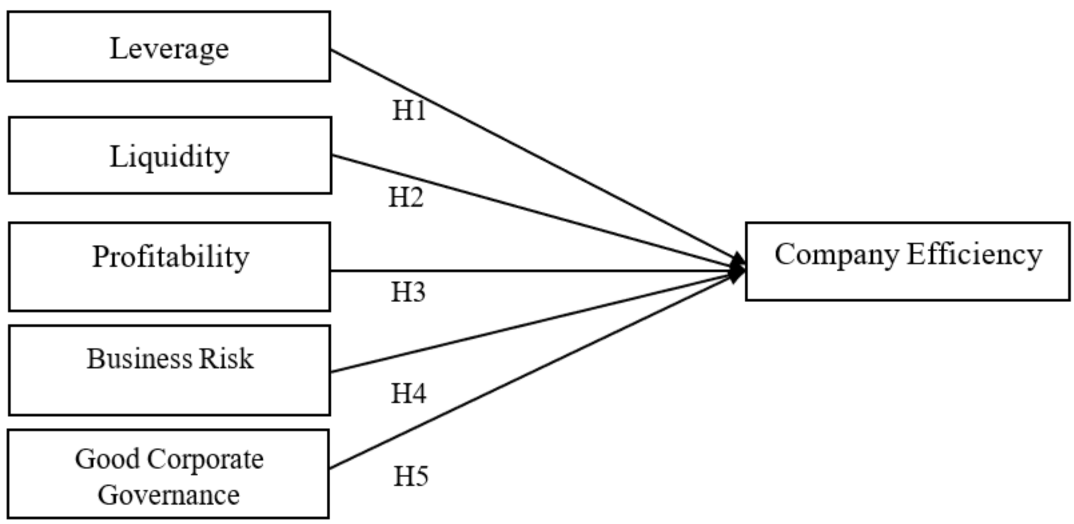

Figure 1. Conceptual Framework Chart

Leverage based on the research results of Alarussi (2021), has a positive effect on Company Efficiency, which means that when leverage means the company's ability to fulfill its financial obligations in both the short and long term. The choice between debt and equity is not an easy decision because it somehow shows a trade-off between business and financial risk. According Yuniwiansyah & Rahayu (2022), who stated that this means that if the company increases the value of its long-term debt to facilitate all the company's business activities, the company's profit value will also increase even though with the increase in risk, some companies prefer loans to finance their needs because they do not want to affect ownership. Financial leverage will be measured by two measurements: debt ratio and debt to equity ratio. So, based on the discussion, the fourth hypothesis is:

$\mathbf{H_1}$: Leverage affects company efficiency.

Liquidity according to the research results of Alarussi (2021), has a positive effect on company efficiency, because when it has good liquidity, it shows the company's ability to convert current assets into cash. Liquidity is important for companies to run their business and is an important player in management decisions. According to Diana & Osesoga (2020), it has been stated that little liquidity can put a company at risk of bankruptcy, however, too much cash in a company can result in poor utilization of resources and the business may not get a satisfactory return on assets. This study intends to test the effect of liquidity on company efficiency. Liquidity is measured, in this study, by the current ratio which presents the company's ability to fulfill its short-term responsibilities. So, based on the discussion, the fifth hypothesis is:

H_2: Liquidity affects Company Efficiency.

The results of Alarussi (2021), research explain that profitability has a positive effect on company efficiency. When profitability is high, a business's ability to generate profits is reflected in the financial ratio and economic activities by using resources. According to Oktaviarni et al. (2019), when profitability is higher in a company, it will reduce agency costs and this motivates management to make sufficient efforts to increase efficiency by using company assets wisely to generate income. Gross profit margin refers to the measurement of the percentage of each dollar of sales remaining after the company has paid for its goods and this presents a satisfactory bottom line of profitability. Return on equity (ROE) presents total net income divided by the number of common shares. Thus, based on this discussion, the seventh hypothesis is as follows:

H_3: Profitability affects company efficiency.

Good Corporate Governance according to the research results of Suryanto and Refianto (2019), has a positive effect on financial efficiency. Good Corporate Governance (GCG) is crucial for improving company performance, as it fosters efficient economic activities and establishes strong relationships between company management, the board of directors, shareholders, and stakeholders. According to Merendino & Melville (2019), the board of directors plays a significant role in determining short- and long-term policies. A smaller board is likely to enhance communication, coordination, and quick problem-solving. GCG contributes to better decision-making and performance, especially in the face of globalization, where companies, including those in the banking sector, must continually improve to remain competitive. The Board of Directors, together with the Board of Commissioners, ensures the implementation of strategies and policies, maintains an effective organizational structure, and delegates authority efficiently. Based on this, it can be concluded that the fourth hypothesis is:

H_4: Good Corporate Governance influences company efficiency.

The results of Ramaiyanti et al. (2018), study stated that business risk has a positive effect on financial performance. Supported by research by Susilo et al. (2018), determination of investment decisions by investors needs to consider the risks that the company will face if funding is predominantly financed by debt. Business risk is a use of the uncertainty inherent in the projected return on capital invested in a company. Companies that have high risks tend to use large debts, as described in the trade-off theory, which essentially balances the benefits and risks that exist due to the use of debt. Based on the theory that has been described previously and a number of previous studies, the fifth hypothesis proposed is:

H_5: Business risks affect company efficiency.

METHODS

This study uses a quantitative approach (Sugiyono, 2016). The population used in this study is manufacturing companies listed on the Indonesia Stock Exchange, namely in the period 2017 - 2023. The sample was taken using a purposive sampling method, so that the sample of this study consists of manufacturing companies that meet certain criteria. The data used in this study came from financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange. The sample selection process began with an initial population consisting of 177 manufacturing companies listed on the Indonesia Stock Exchange in the period 2017-2023. Furthermore, screening was carried out based on several criteria: companies that did not publish financial statements for seven consecutive years (31 companies), companies that would be delisted (9 companies), financial statements that were not reported in Rupiah (23 companies), companies that experienced losses (38 companies), and companies that did not have complete data for analysis (5 companies). After screening, the number of companies that met the criteria was 67 companies with a total of 469 observations (67 companies x 7 years). This study identified two categories of variables, namely dependent variables and independent variables. The dependent variable used is corporate efficiency, which is measured using the ATOT ratio (sales divided by two-year average total assets). The independent variables include leverage (measured by the DR ratio), liquidity (CR), profitability (ROE), good corporate governance (number of board of directors), and business risk (BRISK). Each of these variables is selected based on its theoretical and practical relevance in analyzing corporate efficiency. Panel data regression analysis was employed using EViews 9 software to test the hypotheses. The measurement of variables is done using financial ratios that are commonly used in business and management literature.

RESULTS

Panel model testing is a test to test whether the model used is a dynamic data model before conducting hypothesis testing. This aims to evaluate whether the variables in the model show changes over time and consider the effects of delays in the relationship between variables. This test includes a consistency test using the Arrelano-Bond method. A bias test is carried out to ensure the accuracy of the model used. In addition, a goodness of fit test is applied to measure the extent to which the model is able to explain the dependent variable. Finally, the F test is used to test the simultaneous significance of the independent variables on the dependent variable in the company efficiency model.

Table 1. Panel Model Testing

Test	Analysis	Company Efficiency
Comparative of Dependent's Lag	Order	2
	Prob.	0.2611
	Cut-Off Value	0.05
	Conclusion	No Autocorrelation
Bias	Fixed Effects Model	-0.00317258
	Dynamic Panel Data	0.70107466
	Partial Least Square	1.014216
	Conclusion	No Bias
Goodness of Fit Test	Adjusted R-Squared	0.1179
F Test	Prob.	0.0000
	Hypothesis	Ha Accepted
	Conclusion	Significant

Source: Processed data

The results of the Comparative of Dependent's Lag test in table 1 show that the values for both models have a probability value > 0.05, so it can be concluded that all models used do not have autocorrelation or the models used are consistent. To meet the requirements of no bias, the lag value of Dynamic Panel Data must be between the Fixed Effect Model and Partial Least Square. The test results show that all dynamic models have lag values between the fixed effect model and PLS. It can be concluded that there is no bias. Based on the results of the mismatch test, the Adjusted R-Squared value in Model 1 (Company Efficiency) is 0.1179 or 11.79%. This shows that all independent variables can explain the dependent variable by 11.79%, while the remaining 88.21% is explained by other variables outside the model. Based on the test results, it shows the Prob value (F-Statistic) in Model 1 (Company Efficiency) of 0.0005 <0.05, Ha is accepted. It can be concluded that simultaneously, all independent variables have a significant influence on the dependent variable.

Panel data regression is employed in this study to analyze the relationships between company efficiency (dependent variable) and the independent variables—leverage, liquidity, profitability, good corporate governance, and business risk. This method is suitable because it combines cross-sectional and time-series data, allowing for the control of unobservable heterogeneity across companies. The regression model also incorporates lagged variables to account for potential autocorrelation and the time-dependent nature of company efficiency.

$$ATOT_{it} = \alpha + \beta_1 DR_{it} + \beta_2 CR_{it} + \beta_3 ROE_{it} + \beta_4 BRISK_{it} + \beta_5 GCG_{it} + e_{it}$$

Where ATOT is the company's efficiency, DR is the debt ratio, CR is the current ratio, ROE is the return on equity, BRISK is the business risk, GCG is good corporate governance, and e is the error term. Descriptive statistics are presented in table 7 which will provide an overview of the minimum value, maximum value, average value, and standard deviation of each variable. The following is a table of descriptive statistics for each research variable:

Table 2. Research Achievement Indicators

Variables	Mean	Maximum	Minimum	Std.Dev
ATOT	0.257444	1.890200	0.008700	0.187667
DR	0.451221	1.823400	0.044000	0.203533
CR	2.752544	207.0655	-7.2356	9.868519
ROE	0.048952	2.401700	-21.3637	1.049858
GCG	5.189542	15.00000	2.000000	2.437207
BRISK	0.071359	0.711300	-0.2903	0.116133

Source: Processed data

Table 2 provides a detailed summary of the descriptive statistics for the variables used in this study, including the mean, maximum, minimum, and standard deviation values for each variable. The average asset turnover ratio (ATOT) of 0.257444, with a standard deviation of 0.187667, indicates moderate efficiency across the sample firms, with some variation. Leverage (DR) averages 0.451221, suggesting that nearly half of the firms' assets are financed through debt. However, the wide range between the minimum (0.044000) and maximum (1.823400) highlights significant differences in financial structures among the firms. Liquidity (CR) shows an exceptionally high standard deviation (9.868519) compared to its mean (2.752544), reflecting the diverse liquidity management practices within the sample. Profitability (ROE) demonstrates a relatively low average of 0.048952, with significant variation as shown by its standard deviation (1.049858). Good Corporate Governance (GCG) has an average of 5.189542 board members, reflecting relatively small board sizes. Lastly, business risk (BRISK) shows an average of 0.071359, with minor deviations, indicating overall stability in operational risk among the firms. These statistics provide an essential foundation for understanding the variability and characteristics of the dataset, which are further explored in the regression analysis.

Table 3. Hypothesis Testing (Short Term)

Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	0.014334	0.7121		
Lag of Company Efficiency	0.701074	0.0000	H_a Accepted	Significant
Leverage	-0.092301	0.0098	H_a Accepted	Significant
Liquidity	0.008531	0.8249	H_a Rejected	Not Significant
Profitability	0.000822	0.8164	H_a Rejected	Not Significant
Good Corporate Governance	-0.006935	0.0730	H_a Rejected	Not Significant
Business Risk	0.354955	0.0000	H_a Accepted	Significant

Source: Processed data

Table 3 shows the results of the hypothesis testing using the dynamic panel data model. The findings indicate that the lag of company efficiency has a significant positive effect, suggesting that past efficiency strongly influences current efficiency levels. Leverage displays a significant negative effect, implying that higher debt levels can reduce efficiency due to increased financial risk and costs. Business risk demonstrates a significant positive effect, indicating that firms willing to take calculated risks can achieve greater efficiency through innovation and asset optimization. However, liquidity, profitability, and good corporate governance did not show significant effects on company efficiency. The lack of significance in these variables could indicate measurement issues, insufficient data variability, or external influences not captured in the model. For instance, liquidity and profitability might be less impactful in manufacturing due to the industry's capital-intensive nature, where efficiency is often driven by asset utilization rather than short-term financial metrics. Similarly, governance structures may take time to influence operational outcomes, limiting their observable effects in a short-term panel framework.

Table 4. Long-Term Hypothesis Testing

Variables	Coefficient	Prob.	Hypothesis	Conclusion
Leverage	-0.87495	0.7691	H_a rejected	Insignificant
Liquidity	-0.00039	0.9153	H_a rejected	Insignificant
Profitability	-1.06158	0.7344	H_a rejected	Insignificant
Business Risk	-0.42498	0.9342	H_a rejected	Insignificant
Good Corporate Governance	.1561249	0.7212	H_a rejected	Insignificant

Source: Processed data

Table 4 presents the results of the long-term hypothesis testing, focusing on sustained relationships between the variables and company efficiency. None of the variables—leverage, liquidity, profitability, good corporate governance, and business risk—show significant long-term effects. This could be attributed to several factors. Firstly, the dataset may lack sufficient granularity or variation over time to capture these effects adequately. Secondly, the choice of measurement proxies might not fully reflect the variables' intended impacts in a long-term context. For example, leverage and profitability could influence efficiency indirectly through other mediating factors not included in the model. Additionally, macroeconomic conditions, regulatory changes, or industry-specific dynamics could overshadow the variables' effects on long-term efficiency.

DISCUSSION

The effect of leverage on company efficiency

Based on the results of data processing, it shows that the significance value of the DR variable has a negative influence on ATOT. The study finds that debt negatively affects company efficiency, with a strong negative impact indicating that higher loans increase risks due to inefficient asset utilization in transactions or sales. This supports the argument that debt selection influences company risk. The findings align with Setiawati & Lim (2018), who also found a negative relationship between leverage and efficiency. However, long-term analysis shows leverage has no significant effect, raising questions about external factors like market conditions and industry characteristics. The short-term negative impact may result from the immediate financial burden, whereas in the long term, firms might adjust strategies to mitigate risks. Additionally, using the debt ratio as a leverage measure may not fully capture the complex relationship between debt structure and efficiency. Future research should consider alternative metrics and more detailed data to better understand this relationship.

The effect of liquidity on company efficiency

The information above is the result of testing the current ratio value which is a measurement of the liquidity ratio obtained positive but does not have a significant effect on company efficiency. The test results show that a large current ratio does not always affect company efficiency which is proxied by total asset turnover. This could reflect the nature of the manufacturing industry, where efficiency is more closely tied to asset utilization and production capacity rather than short-term financial metrics like liquidity. Large liquidity can make a company create low profits because there are many idle funds. Conversely, if liquidity is low, it will lower the level of confidence from internal or external parties. Furthermore, the high variability in liquidity data, as indicated by its large standard deviation, suggests that firms within the sample may employ diverse liquidity management strategies, potentially diluting the observed relationship with efficiency. The results of this research are not in line with and do not match the results of research conducted by Alarussi (2021), which states that liquidity has a significant negative effect on company efficiency.

The effect of profitability on company efficiency

The results of the analysis indicate that profitability (return on assets) has a significant positive effect on company efficiency (ATOT). The results of this study are in line with previous research conducted by Akhter (2018), which showed a positive effect on the company's ability to generate profitability and utilization of energy sources owned by the company in accordance with the third hypothesis. High profitability is caused by whether or not the company is good at managing its resources. High company profitability will directly increase company efficiency. Company managers are motivated to increase efficiency when looking at business results and creating more profits (Prihatni, 2019). It can be concluded that if efficiency and profitability influence each other, then when there is an increase in company efficiency, it will have an impact on cost expenditures, because it will be lower so that it can increase company profitability.

The effect of good corporate governance on company efficiency

The results of the research that has been conducted show that good corporate governance has a negative but insignificant effect on company efficiency. The results of this test are not in line with the results of the research by Suryanto & Refianto (2019), who have research results that good corporate governance has a significant positive effect on company efficiency because the better the corporate governance a company has, the better the performance of the company is expected to be. Good Corporate Governance is one of the key elements to increase economic efficiency, which includes a series of correlations between company management, the board of directors, shareholders, and other stakeholders. However, the results of this study are in accordance with the results of research which states that the results of research on good corporate governance have a negative effect on company efficiency, in line with the results of research by Susilowati et al. (2022), which states that the results of research on the negative but insignificant effect of good corporate governance on company efficiency. This is because the implementation of strict practices can slow down decision making, shift focus from operational efficiency, and lead to more conservative use of assets, which has the potential to reduce sales volume relative to total assets owned.

The effect of business risk on company efficiency

The results of the research that has been conducted show that business risk has a positive effect on company efficiency, in line with the research of Susilo et al. (2018), which stated that the results of the business risk research have a positive effect on company efficiency, which can be interpreted that the determination of investment decisions by investors needs to consider the risks that the company will experience if the company is more dominantly financed by debt. The results of this study are in line with research by Ramaiyanti et al. (2018), which stated that the results of the study showed that business risk has a positive effect on company efficiency. This is because companies that dare to take risks tend to invest in innovation, increase asset utilization, and create new products or services that can increase sales volume. Thus, effective risk management can result in increased operational efficiency, where existing assets are used more productively to generate higher income.

CONCLUSION

The company's financial report is an important aspect for investors or management to make decisions. Financial ratios, good corporate governance and business risk of the company can show the level of efficiency in a company. The purpose of this study is to test the influence of financial ratios with variables proxied by leverage, liquidity, and profitability, good corporate governance and business risk on the efficiency of manufacturing companies using empirical data from the Indonesia Stock Exchange of 67 companies for the period 2017 - 2023. The study finds that leverage and business risk significantly impact company efficiency, while liquidity, profitability, and corporate governance do not. The lack of significance for liquidity may stem from the manufacturing industry's reliance on long-term investments and asset utilization rather than short-term liquidity management. Profitability might not directly affect efficiency due to differences in cost structures and reinvestment strategies. The insignificant effect of corporate governance suggests that governance practices in the sampled firms may not yet enhance efficiency, implying that improvements in governance take time to yield measurable gains. Theoretically, this study contributes to the literature by emphasizing the nuanced role of financial and governance factors in an emerging market. It highlights the need to consider industry-specific dynamics and external influences that moderate these relationships. Practically, managers should focus on effective debt management and risk mitigation to improve efficiency. Policymakers could promote governance frameworks suited to the manufacturing sector's unique challenges, fostering long-term operational improvements. However, the study has limitations. Its focus on a single industry and country may limit generalizability. The use of secondary financial data could introduce measurement errors and overlook qualitative governance aspects. Future research should expand to multiple industries and countries and explore qualitative approaches to gain deeper insights into the mechanisms driving efficiency.

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