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Optimizing Corporate Financial Performance through Good Corporate Governance and Leverage: A Literature Review

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Abstract: This article aims to analyze the role of Good Corporate Governance (GCG) and leverage in enhancing corporate financial performance through a literature review approach. GCG, measured through ownership structure, board of directors, audit committee, and transparency, along with leverage policy, serves as a key factor in optimizing financial performance. This article reviews relevant literature linking these two variables to improvements in corporate financial performance and offers theoretical and practical implications that can serve as a foundation for further research. The literature review findings indicate that the implementation of effective GCG principles can enhance accountability, reduce information asymmetry, and promote better decision-making, thereby positively impacting profitability and firm value. Meanwhile, leverage has a complex influence; moderate debt use can increase return on investment through tax shields, but excessive leverage raises financial risk. The interaction between GCG and leverage also moderates their relationship with financial performance, where good governance can mitigate risks associated with leverage. The implications of this study highlight the importance of balancing GCG practices and leverage policies to achieve optimal financial performance. These findings are expected to serve as a reference for academics, practitioners, and regulators in making strategic decisions.

Keyword: Financial Performance, Good Corporate Governance, Leverage

INTRODUCTION

In the era of globalization and increasingly intense business competition, a company's financial performance has become a critical indicator for assessing the success and sustainability of a business entity (Almaqtari et al., 2019). One of the main challenges faced by modern companies is how to achieve optimal financial performance while maintaining good governance and a healthy capital structure. In this context, the implementation of Good

Corporate Governance (GCG) and proper leverage management emerge as significant determining factors (Abor & Biekpe, 2020).

Good Corporate Governance has become a central focus in contemporary financial literature, particularly following various corporate scandals in the early 21st century. Recent studies show that strong GCG practices—including transparency, accountability, and an effective board structure—are significantly correlated with improved corporate financial performance (Aluchna & Kamiński, 2022). Well-functioning GCG mechanisms can reduce information asymmetry and agency conflicts, thereby creating a conducive environment for strategic decision-making (Almeida et al., 2021).

GCG plays a crucial role in enhancing corporate financial performance through improved oversight, transparency, and accountability mechanisms. Recent studies indicate that companies with strong GCG practices tend to have higher return on assets (ROA) and return on equity (ROE) compared to those with weak governance structures (Almaqtari et al., 2021). This occurs because effective GCG reduces agency costs by aligning the interests of management and shareholders, leading to strategic decisions that are more focused on long-term value creation (Ullah & Sun, 2021).

One of the key aspects of GCG is the composition of an independent and diverse board of directors. Empirical studies have shown that the presence of independent directors and a competent audit committee significantly improves the quality of financial reporting and reduces earnings management practices (Allegrini & Greco, 2021). Moreover, transparency in financial disclosure—a core principle of GCG—assists investors and creditors in more accurately assessing a company's risks and potential, thereby helping to lower the cost of capital (Elmagrhi et al., 2020).

Amid the complexities of modern business, GCG also serves as a safeguard against operational and reputational risks. Companies with strong governance structures have proven to be more resilient in facing economic crises, such as the COVID-19 pandemic, due to having more measured and responsive decision-making systems (Bae et al., 2022). Thus, investing in GCG is not only about regulatory compliance but also represents a strategic advantage for achieving superior and sustainable financial performance.

On the other hand, leverage policy remains a controversial topic in financial literature. Recent empirical studies indicate that leverage has a non-linear relationship with financial performance, where a moderate level of debt can enhance profitability through tax benefits and financial discipline, while excessive leverage increases financial risk (Margaritis & Psillaki, 2021). The interaction between GCG and leverage has become increasingly important, as good corporate governance can moderate the negative impacts of high leverage (Ullah et al., 2022).

Leverage, or the use of debt, plays a strategic role in enhancing a company's financial performance through several key mechanisms. Recent studies show that an optimal capital structure with moderate debt utilization can increase return on equity (ROE) through the tax shield effect, where interest payments on debt reduce the company's tax burden (Graham et al., 2021). However, the benefits of leverage are non-linear—when the debt ratio exceeds the optimal point, financial risk increases and performance actually declines (Margaritis & Psillaki, 2021).

In the context of financial discipline, leverage serves as a control mechanism for management. Empirical studies have shown that companies with moderate leverage tend to have higher operational efficiency because the pressure to meet debt obligations forces management to reduce waste and allocate resources more productively (Ameer, 2022). Debt also limits managers' tendency to engage in over-investment in negative-value projects (Jensen's free cash flow theory), thus improving more rational capital allocation (Ullah et al., 2022).

However, it is important to note that the benefits of leverage are highly dependent on the quality of corporate governance and macroeconomic conditions. Research in emerging markets indicates that companies with strong corporate governance are able to maximize the benefits of leverage while minimizing its risks (Abor & Biekpe, 2020). On the other hand, during periods of high interest rates or economic recessions, excessive leverage can become a significant burden (Bae et al., 2022). Therefore, leverage policy must always consider the trade-off between the potential for increased profitability and the financial risks associated with it.

This article aims to provide a comprehensive literature review on the role of GCG and leverage in enhancing corporate financial performance, focusing on recent studies from the past decade. Through a systematic approach, this review will analyze the latest empirical findings and identify research gaps that need further exploration. The findings are expected to make a significant contribution to the development of theory and practice in the fields of accounting and corporate finance.

METHOD

This study employs a systematic literature review approach to analyze the relationship between Good Corporate Governance (GCG), leverage, and corporate financial performance. This method was chosen to provide a comprehensive synthesis of recent empirical findings (2013-2023) while also identifying research gaps (Kitchenham & Charters, 2015).

The data and information in this article were obtained through a literature review by examining various scholarly sources such as books, national and international journal articles, government regulations, and academic publications that discuss related topics. The literature reviewed was purposively selected based on relevance, novelty, and its contribution to the development of the conceptual framework (Boote & Beile, 2005).

The analysis process is carried out through theoretical synthesis, which involves combining various concepts and research findings into a systematic framework. This step includes identifying key variables, tracing relationships between variables, and mapping concepts that can serve as a guide for future researchers. The resulting conceptual model is expected to comprehensively explain how Good Corporate Governance (GCG) and leverage can influence corporate financial performance.

RESULTS AND DISCUSSION

Maximizing Corporate Financial Performance Through Good Corporate Governance (GCG)

Good Corporate Governance (GCG) refers to the system of rules, practices, and processes that guide and control a company to achieve its business objectives in an ethical, transparent, and accountable manner. The key principles of GCG include transparency, accountability, responsibility, independence, and fairness. Its primary goal is to ensure that the company is managed in a way that protects the interests of all stakeholders, including shareholders, management, employees, customers, and the broader community.

According to The Corporate Governance Institute, GCG involves the implementation of effective strategic policies and practices to run an organization. This includes aspects such as risk management, work ethics, legal compliance, and responsible financial management. By applying GCG, companies can build long-term trust with stakeholders and achieve sustainable revenue growth. The effective implementation of GCG has a significant impact on improving a company's financial performance. GCG helps companies manage risks, enhance operational efficiency, and ensure sound decision-making, all of which contribute to increased profitability and company value.

GCG plays a crucial role in enhancing a company's financial performance. GCG includes principles such as transparency, accountability, responsibility, independence, and fairness, all aimed at ensuring that the company is well-managed and accountable to its stakeholders. By effectively implementing GCG, companies can improve operational efficiency, reduce risks, and increase investor confidence, which ultimately has a positive impact on financial performance.

Abdullah & Turgut (2023) in their study show that the implementation of good GCG can improve Return on Assets (ROA) and Return on Equity (ROE) of companies. The study emphasizes that GCG mechanisms, such as the board structure and audit committees, contribute significantly to improving a company's financial performance. This result is consistent with research conducted by Markonah & Prasetyo (2022) on commercial banks in Indonesia, which shows that GCG has a positive influence on financial performance. This study highlights that the application of GCG principles can enhance operational efficiency and bank profitability.

In addition, Kartika et al. (2023) in their study also emphasize that GCG, along with intellectual capital, plays a crucial role in enhancing a company's financial performance. The study shows that companies that implement GCG effectively tend to have better financial performance compared to those that do not apply it. Furthermore, Benkraiem et al. (2023) in their study also show that the proper implementation of GCG can improve a company's Return on Equity (ROE). This study emphasizes that an effective board structure and an independent audit committee contribute significantly to improving the company's financial performance.

The study by Alodat et al. (2022) also highlights that good GCG ensures that companies operate efficiently and effectively, while maximizing value for shareholders. GCG also helps companies reduce agency costs and risks, as well as enhance transparency and accountability. This means that by implementing GCG, companies can increase investor confidence, access capital markets more easily, and create long-term sustainable value. The OECD states that good GCG facilitates a company's access to capital markets, which supports innovation and investment.

However, it is important to note that the influence of GCG on financial performance may vary depending on the context of the company. Kyere and Ausloos (2020), in their study of non-financial companies in the UK, found that GCG mechanisms can have a positive, negative, or even no effect on financial performance, depending on how these mechanisms are implemented and the specific context of the company.

Overall, the effective implementation of GCG can be a key strategy in maximizing a company's financial performance. By ensuring transparency, accountability, and good oversight, companies can enhance investor confidence, operational efficiency, and ultimately, profitability.

Maximizing Company Financial Performance Through Leverage

Leverage, or financial leverage in the context of finance, refers to the use of borrowed funds (debt) by a company to finance investments or operations with the goal of increasing potential profits for shareholders. In other words, leverage allows a company to use external resources to expand its asset base and, ultimately, the company's profits.

According to Investopedia (2025), financial leverage is the process of taking on debt or borrowing funds to increase the returns earned from an investment or project. However, it is important to note that the use of leverage also increases financial risk, as the company must meet its debt repayment obligations regardless of its financial performance.

Leverage, or the use of debt in a company's capital structure, is a financial strategy that can amplify the potential returns for shareholders. By utilizing borrowed funds, a company can increase its investment and operational capacity without sacrificing equity. However, the use of leverage also carries additional risks, especially if not managed properly.

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A study by Azizah and Nugroho (2025) shows that leverage has a significant impact on a company's financial performance, with profitability as an intervening variable. This study highlights the importance of proper leverage management to achieve optimal financial performance. Additionally, Mwangi and Murigu (2015) in their study also found that leverage has a positive effect on the financial performance of companies, particularly in the context of insurance companies in Kenya. Another study by Amri (2021) emphasizes that leverage can be used as a tool to measure a company's financial risk. In the case of PT. Pabrik Kertas Tjiwi Kimia Tbk, leverage analysis helps in understanding the company's capital structure and its impact on financial performance.

However, not all studies find a positive relationship between leverage and financial performance. A study by Hakim and Farida (2025) on transportation and logistics companies in Indonesia found that leverage has a negative impact on a company's financial performance. This suggests that excessive use of leverage can reduce the company's profitability. Additionally, research by Zulfikar, Lukviarman, and Suhardjanto (2020) on food and beverage companies in Indonesia also found that leverage has a negative impact on financial performance. This study emphasizes the importance of careful leverage management to avoid excessive financial risk.

The effective use of leverage can be a strategic tool to improve a company's financial performance. By utilizing debt, the company can expand operations, increase production capacity, or make strategic investments without sacrificing shareholder equity. This can lead to higher profits and greater investment returns.

However, it is important to note that excessive use of leverage can also increase the risk of bankruptcy, especially if the company is unable to meet its debt repayment obligations. Therefore, management must be cautious in determining the appropriate level of leverage, considering the company's ability to generate sufficient cash flow to meet these obligations.

Overall, leverage can be an effective tool to maximize a company's financial performance if used wisely. Companies need to consider an optimal capital structure and their ability to meet debt obligations to ensure that leverage contributes positively to financial performance.

CONCLUSION

Good Corporate Governance (GCG) is a crucial foundation for a company in achieving optimal financial performance. By consistently applying GCG principles, companies can improve operational efficiency, better manage risks, and build trust with stakeholders. This not only enhances the company's profitability but also ensures sustainable and ethical growth.

Leverage is a financial tool that can help companies maximize their financial performance through increased investment and operational expansion. However, the use of leverage must be done cautiously and tailored to the company's financial condition and the risks it can bear. Effective management of leverage can lead to increased profits and company value, while careless use can lead to serious financial problems.

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