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Corporate Governance, Leverage, and Stock Returns of Non-Financial Listed Firms in the ASEAN Region: The Moderating Role of Firm Growth

(Tadbir Urus Korporat, Leveraj dan Pulangan Saham Firma Bukan Tersenarai Kewangan di Rantau ASEAN: Peranan Penyederhanaan Pertumbuhan Firma)

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ABSTRACT

A well-structured board, with diversity, independence, and strong audit committee supervision, can enhance shareholder value by improving monitoring, decision-making, and investor trust, ultimately leading to higher returns However, empirical research has revealed a more subtle perspective, with various relationships that can be positive, inconclusive, or negative. highlighted the importance of further studies on the moderating factors that help explain these diverse findings. This study examines the moderating role of firm growth on the effects of corporate governance mechanisms and leverage on the stock returns of non-financial listed firms in the ASEAN region. Data were obtained from six countries in the ASEAN region comprising 412 firms covering to 2012-2022 from the LSGE-Eikon database. This study reveals a positive relationship between board independence, gender diversity, and robust audit committees and returns, emphasising the importance of strong governance in aligning interests and reducing agency costs. It also highlights the role of firm growth in influencing governance elements, and emphasizes the link between strategic leverage and growth expectations. Establishing robust independent audit committees and sharing financial information consistently is recommended to promote openness and confidence. This study implies that businesses with strong corporate governance, particularly those with higher price-to-book ratios, experience better supervision and decision making.

Keywords: Corporate governance; leverage; firm growth; stock returns; ASEAN

ABSTRAK

Lembaga yang teratur dengan baik, mengandungi kepelbagaian, memberikan kebebasan, serta mempunyai penyeliaan jawatankuasa audit yang kukuh, berpotensi untuk meningkatkan nilai pemegang saham melalui pemantauan yang lebih baik, pengambilan keputusan yang tepat, dan peningkatan kepercayaan pelabur, yang akhirnya membawa kepada pulangan yang lebih tinggi. Namun, penyelidikan empirikal telah menunjukkan perspektif yang lebih kompleks, di mana pelbagai hubungan boleh bersifat positif, tidak konklusif, atau negatif. Ini menekankan keperluan untuk kajian lanjut mengenai faktor penyederhana yang dapat membantu menjelaskan penemuan yang berbeza ini. Kajian ini mengkaji peranan penyederhanaan pertumbuhan firma terhadap kesan mekanisme tadbir urus korporat dan tahap leveraj ke atas pulangan saham firma bukan kewangan yang tidak tersenarai di rantau ASEAN. Data yang digunakan diperoleh daripada enam negara di rantau ASEAN, melibatkan 412 firma dari tahun 2012 hingga 2022, berdasarkan pangkalan data LSGE-Eikon. Hasil kajian menunjukkan hubungan positif antara kebebasan lembaga pengarah, kepelbagaian jantina, serta jawatankuasa audit dengan pulangan yang stabil, menekankan kepentingan tadbir urus yang kukuh dalam menyelaraskan kepentingan dan mengurangkan kos agensi. Kajian ini juga menyerlahkan peranan pertumbuhan firma dalam mempengaruhi elemen tadbir urus dan menunjukkan hubungan antara leverage strategik dan jangkaan pertumbuhan. Oleh itu, penubuhan jawatankuasa audit yang bebas dan mantap serta pengongsian maklumat kewangan secara konsisten adalah disyorkan untuk menggalakkan keterbukaan dan keyakinan. Kajian ini menunjukkan bahawa perniagaan yang mempunyai tadbir urus korporat yang baik, khususnya dengan nisbah harga kepada buku yang lebih tinggi, menikmati penyeliaan dan pengambilan keputusan yang lebih baik.

Kata kunci: Tadbir urus korporat; leverage; pertumbuhan kukuh; pulangan stok; ASEAN

INTRODUCTION

The relationship between corporate governance, leverage, and stock returns in emerging markets, particularly within the ASEAN region, has garnered significant academic interest. While leverage can amplify profitability

and enable firms to finance growth initiatives, it also raises the stakes by increasing risk (Yiğit & Muzır 2019). The implication here is that high-growth firms, drawing confidence from their market prospects, may be able to utilize leverage more effectively and garner positive investor sentiment, thereby enhancing stock returns (Warrad & Khaddam 2020). Conversely, for firms rated lower in growth potential, elevated leverage may signal distress or skepticism, potentially harming investor confidence and hindering stock returns (Hidayah et al. 2021). Such observations align with findings that underscore the importance of contextual and moderating factors of governance and financial management in the ASEAN context (Aloui & Jarboui 2018; Sinlapates et al. 2023).

Recent inquiries into the impact of governance structures on stock return volatility have illuminated the critical role these practices can play under various market conditions, specifically in response to regional and global economic crises (Le 2024). This situational analysis is invaluable as the ASEAN markets navigate not only internal governance challenges but also external economic shocks that continuously reshape investment landscapes and risk perceptions (Singh et al. 2020; Kumajas et al. 2024). In light of these developments, understanding how firm growth influences the intersections of governance and leverage offers crucial insights for corporate strategies, investor decision-making, and policymaking within the swiftly evolving marketplace of the ASEAN countries.

This study suggests that one potential factor contributing to the difference between a firm's declared book value and its perceived worth could be a factor contributing to discrepancies in stock returns. Price-to-book-ratio (PBR) is a significant metric that shows the difference between a company's accounting-based value and its growth potential (Tulcanaza-Prieto et al. 2024). Thus, higher ratios indicate a higher valuation of a company's growth potential (Kamath et al. 2024). This study also suggests that the impact of corporate governance on stock returns may vary depending on a firm’s growth. Different investment strategies and risk preferences among companies can explain this variation (Tulcanaza-Prieto et al. 2024).

Previous studies have shown that an effective audit committee, characterized by independence, diversity, and a well-organized board, can positively impact stock returns (Huang et al. 2023; Thai et al. 2023). This is achieved through enhanced regulatory supervision, improved strategic decision making, and increased investor confidence. However, the potential influence of different values, as indicated by firm growth, has not been explored thoroughly. Achim et al. (2016) suggested that firms with high growth, which reflects market confidence in their prospects, may experience a stronger positive influence of strong governance practices on stock returns. Investors who perceive a greater development potential in these firms may be more willing to reward them for their risk-reducing and value-enhancing governance processes. Nonetheless, firms with low and moderate growth expectations may not be significantly impacted by identical governance procedures (Achim et al. 2016). Strong corporate governance may not be enough to sway the investment decisions of investors who are already sceptical about the potential of these firms.

Tulcanaza-Prieto et al. (2024) posit that the relationship between stock returns and leverage, specifically the debt-to-equity ratio, is mixed and non-linear. While leverage can potentially increase profitability, it also introduces higher risk. Interestingly, few studies explore the potential interaction between firm growth and leverage in influencing stock returns (Velliscig et al. 2023). The proposition put forth is that firms with high growth may receive greater investor support for using debt to accelerate expansion. On the other hand, firms with low growth which indicate investor scepticism about prospects may view an increase in debt as detrimental (Velliscig et al. 2023). Consequently, this could undermine the positive relationship between leverage and stock return.

Therefore, this study fills gaps in existing studies by examining the following main research questions: (1) Does the relationship between stock returns and corporate governance mechanisms, such as board independence, board diversity, audit committee independence, board size, and audit committee independence, differ based on a firm's growth in Association of ASEAN countries? (2) Can firm growth influence the relationship between leverage and stock returns for firms in ASEAN countries? By exploring this research question, this study clarifies the relationship between corporate governance, leverage, and stock returns and the influence of firm growth on this relationship. The findings of this study also have the potential to enhance the understanding of corporate governance practices and their ability to generate shareholder value under various market conditions. Similarly, it provides valuable insights for investors, corporations, and governments to effectively manage the multifaceted dynamics between governance, leverage, and stock returns in the boardrooms of ASEAN region-listed nonfinancial firms.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

AGENCY AND TRADE-OFF THEORIES

Agency theory is based on the idea that there is a conflict of interest between shareholders and managers in a company (Jensen & Meckling 1976). Shareholders want to maximize their returns on investment, whereas managers are motivated by self-preservation and wealth maximization. This conflict can lead to agency costs, in which managers prioritise their gains over shareholder profitability. Strong corporate governance systems are essential for mitigating these costs (Jensen & Meckling 1976). These systems ensure that there are impartial boards

with diverse perspectives and effective audit committees that oversee management actions and that they align with the interests of shareholders. Bhagat and Bolton (2019) support the positive influence of audit committees and independent boards on stock return. Adhering to ethical standards, transparent reporting, and the timely disclosure of information also play a role in reducing agency costs (Raimo et al. 2021). This fosters investor confidence and reduces information asymmetry, leading to a more efficient allocation of capital and potentially higher returns (Jensen et al. 1992).

Additionally, this study examines the potential mitigating effect of a higher PBR, which indicates investor expectations for future growth. Saad et al. (2019) opine that firms with substantial growth prospects may attract investors who are more receptive to moderate agency costs. The impact of leverage on firms'stock returns is a complex issue, with multiple aspects. While leverage can provide easier access to finance and potentially increase profits, it also introduces financial risk and incurs higher debt costs (Silpachai 2023). Trade-off theory suggests that firms must carefully balance their leverage to achieve optimal levels. Firms with higher leverage can achieve better investment returns if they generate returns that exceed the cost of debt (Das et al. 2022). However, excessive leverage can lead to financial risks and lower returns. Firms with high growth rates, suggesting promising growth opportunities, may be able to sustain high levels of debt without negatively impacting investor confidence (Lee & Koshoev 2023). Thus, agency theory helps understand how governance structures influence management behaviour and reduce agency costs.

However, trade-off theory explains the risks and benefits associated with leverage choices. Additionally, the incorporation of firm growth as a moderating factor adds another layer of complexity, allowing us to examine how investor expectations and growth potential influence the outcomes of governance and leverage decisions on stock returns. Trade-off theory suggests that companies must carefully consider the advantages and disadvantages of debt when determining their ideal capital structure. Debt offers benefits such as tax advantages and increased cash flow but also comes with risks such as financial distress and higher interest rates. By striking a balance between these factors, companies can maximize their overall corporate value (Saad et al. 2019). Leverage allows companies to invest in profitable initiatives without diluting shareholder ownership; however, it requires effective risk management. The impact of leverage on stock returns may be more significant for firms with higher PBR, indicating that investors are more willing to take risks and have higher growth opportunities.

CORPORATE GOVERNANCE MECHANISMS AND STOCK RETURNS

Corporate governance plays a crucial role in the functioning of financial markets and creation of long-term value for corporations. It encompasses a set of regulations and practices that govern the administration and control of companies, ensuring that the objectives of the management, shareholders, and other stakeholders are aligned (Akbar et al. 2020). One of the key indicators of value creation is stock returns, which reflect the financial benefits shareholders derive from holding company shares (Lin & Lin 2021). The relationship between specific governance mechanisms and stock returns has been studied. This study focuses on four key elements: board independence, board gender diversity, board size, and audit committee independence.

The presence of independent directors on a firm's board has been found to have a positive association with higher stock returns (Teh et al. 2016). This aligns with the agency theory perspective, which suggests that independent directors who are not influenced by management can effectively supervise managers and reduce agency costs (Macey 2021). By enhancing surveillance, independent directors can contribute to better decision-making, increased profitability, and ultimately improve stock returns. However, the empirical data on the relationship between board independence and stock returns are conflicting. For example, Akbar et al. (2020) found no significant relationships. This suggests that the impact of board independence may depend on other factors such as the size of the organisation, the characteristics of the industry, and the quality of independent directors. Based on this discussion, we propose the following hypothesis:

H_{1a} Firms with higher board independence have higher stock return.

Gender diversity on boards has the potential to improve decision-making processes by introducing a broader range of perspectives (Alkhawaja et al. 2023). However, when analysed through the lens of agency theory, it may not necessarily lead to better decision making. Instead, gender diversity can be viewed as a tool for mitigating agency costs (Lee & Thong 2023). Traditional boards often suffer from "groupthink" and echo chambers, which can lead to the prioritization of management interests over shareholder value (Gharbi & Othmani 2023). These established relationships can be disrupted by introducing gender diversity. Women with diverse professional backgrounds and life experiences bring about a more subtle evaluation of managerial proposals and reduce the likelihood of biased judgments (Alkhawaja et al. 2023). Gender disparity can give rise to latent biases that negatively influence decision-making, ultimately harming shareholder interests. A more diverse boardroom can confront these biases and generate decisions that are more objective and value-maximizing (Chijoke-Mgbame et

al. 2020). Also, Nadeem et al. (2020) suggests that gender diversity in the boardroom improves communication and collaboration, leading to increased stock returns. Thus, the following hypothesis was formulated:

H_{1b} Board gender diversity has a positive relationship with the stock returns of firms

Studies on the relationship between board size and stock returns have produced mixed findings. Although larger boards provide a wider range of resources and viewpoints, they may also present difficulties in terms of coordination, prolonged decision-making, and increased agency costs (Zubeltzu-Jaka et al. 2020). Several studies have shown a direct relationship between a firm's board size and stock performance (Le et al. 2023). However, an alternative perspective argues that larger boards may have limited advantages. Based on this discussion, we propose the following hypothesis:

H_{1c} Firms with larger board size have higher stock returns

Agency theory posits that independent audit committees play a crucial role in aligning the interests of shareholders and management, as well as in minimizing agency costs. Independent audit committees possess impartiality and financial competence, enabling them to effectively scrutinize financial reporting processes and detect any attempts by management to manipulate the results (Awinbugri & Prince 2019). This helps mitigate the imbalance in knowledge between investors and management, increasing confidence and reliance on financial statements. These committees act as watchful watchdogs on financial reporting procedures of management, offering a strong oversight tool. They carefully examine questionable accounting methods and ensure adherence to accounting rules, reducing the possibility of hidden profit manipulation. Furthermore, independent audit committees improve the integrity of financial information by identifying and preventing manipulative behaviours related to profits. This enhances investor confidence by ensuring information openness and reducing the likelihood of false reports. Having independent audit committees in a business improves the overall governance structure, and increases investor confidence and trust in an organisation's financial reporting methods (Leng et al. 2022).This can lead to an increase in stock prices due to a more stable and easily traded market for the company's securities. This hypothesis was formulated as follows:

H_{1d} Firms with higher audit committee independence will have higher stock returns.

LEVERAGE AND STOCK RETURNS

Firm leverage has been found to have a positive effect on stock returns. Leverage allows firms access to additional financing, which can incentivise profitable investments and drive the organization towards further growth. Das et al. (2022) posit that a firm may use debt to acquire a competitor, increasing its market share and generating higher profits. Leverage can also be used to enter new markets and to create value for shareholders. In certain investment strategies, such as mergers and acquisitions, leverage plays a crucial role in capitalizing on attractive opportunities (Kuchler 2020). However, concerns regarding financial and agency costs must be addressed. This can be achieved by implementing risk-management protocols and setting prudent leverage thresholds. It is important to note that there is an optimal leverage threshold beyond which the benefits become negligible and the potential risks outweigh the advantages (Ghardallou 2023). Therefore, it is necessary to consider the strategic and judicious use of leverage carefully. Thus, the positive implications of leverage on stock returns require further investigation. This finding highlights the need for further research and analysis to fully understand the true impact of leverage on stock returns. Based on this review, the following hypothesis is proposed:

H_2 Firms with higher leverage have higher stock return.

MODERATING EFFECT OF FIRM GROWTH ON THE INFLUENCE OF CORPORATE GOVERNANCE ON STOCK RETURNS

Price-to-book-ratio (PBR) is a crucial metric investors use to assess a firm's future growth potential. Firms with higher growth attract investors willing to pay higher valuations because of projected future profits (Kamath et al. 2024). The literature establishes a positive relationship among board independence, board diversity, firm growth, and stock returns, suggesting that firms with independent directors and diverse boards experience higher shareholder returns. Pham and Nguyen (2020) find that independent boards are valued more by investors in high-growth companies with high PBR. This is because independent boards play a crucial role in overseeing and preventing detrimental actions. Furthermore, Gharbi and Othmani (2023) provide evidence that board diversity has a positive impact on company performance, particularly for firms with high growth. Investors may perceive that boards with higher diversity possess the ability to identify and capitalize on development prospects inside these firms because of their broader expertise and perspective. Consistent with agency theory, the findings indicate

that diverse and independent boards may improve decision making and decrease agency expenses, ultimately leading to higher returns (Pham & Nguyen 2020). However, it is crucial to recognize that investors in rapidly expanding enterprises may be more willing to tolerate potential agency fees because of the alluring promise of greater potential returns. Based on this discussion, the following hypothesis was formulated:

H_{3a} The positive relationship between board independence and stock returns is stronger for firms with higher growth rate.

H_{3b} The positive relationship between Board diversity and stock returns is stronger for firms with higher firm growth.

Le et al. (2023) posit that firms with high PBR tend to have larger boards, which is beneficial for growth-oriented firms. A larger board provides greater abilities and experience for strategic decision-making and development opportunities. This is connected to stronger stock returns for high-PBR firms, because the market considers the diversity and breadth of a larger board as growth drivers. However, in low-PBR countries with poor growth potential, a larger board may slow decision making and increase costs without improving stock returns (Zubeltzu-Jaka et al. 2020). Thus, firm growth moderates the board size-stock return relationship by aligning investor estimates of board value with a firm's expected growth path.

H_{3c} The relationship between board size and stock returns is stronger for firms with higher growth rates.

Abdeljawad et al. (2020) found a positive relationship between audit committee independence and company performance. This suggests that having independent audit committees can improve the accuracy and reliability of financial statements, as well as deterring fraudulent activities (Leng et al. 2022). Although limited research exists on the moderating effect of firm growth, it is reasonable to assume that investors in rapidly expanding firms place a high value on reliable information and robust financial reporting. This finding further strengthens the positive correlation between audit committee independence and company performance. This finding aligns with agency theory, which emphasizes the importance of independent audit committees in preventing managerial bias and ensuring accurate financial data (Jensen & Meckling 1976).

H_{3d} The positive relationship between audit committee independence and stock returns is stronger for firms with higher growth rates.

MODERATING EFFECT OF FIRM GROWTH ON THE INFLUENCE OF LEVERAGE ON STOCK RETURNS

Ghardallou (2023) suggested that leveraging can enhance resource acquisition and profitability for companies and increase financial risk (Ghardallou 2023). The impact of leverage on stock returns may vary depending on a firm's growth. Companies with higher growth have strong growth potential, which improves their ability to utilize debt. This is based on the expectation that such firms will generate sufficient future earnings to meet and expand their debt. In such cases, leverage may be considered a growth strategy and sign of proactive management (Benkraiem et al. 2023). The potential for higher profits outweighs risks, leading to a positive correlation between leverage and stock returns. However, firms with low growth rates may be cautious about excessive debt. Low-PBR firms have poor growth prospects or market undervaluations, whereas excessive leverage may signal financial problems rather than growth. This negative perception can hinder stock gain. Firms with high PBR and increased leverage may signal management confidence in their strategic objectives and financial risk management (Tulcanaza-Prieto et al. 2024). Thus, we propose the following hypothesis:

H_4 The positive relationship between leverage and stock returns is stronger for firms with higher price-to-book ratios.

CONCEPTUAL FRAMEWORK

As Figure 1 shows, firm growth influences corporate governance, debt, and stock return. This is based on trade-off theory and agency theory. Firm growth reflects market estimates of a company's value compared to its book value, making it an important factor to consider. Prioritizing firm growth as a moderator can potentially change corporate governance and financial leverage, which in turn affects stock returns. This model was created to analyze these processes and their effects on financial management and investment, considering that market prices and growth expectations are influenced differently by these components.

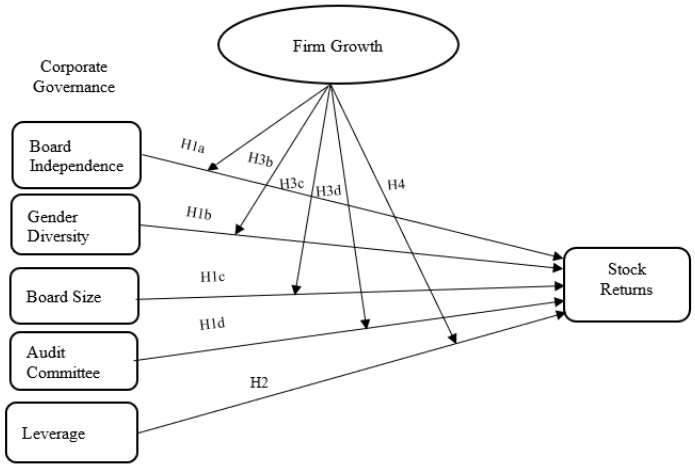

FIGURE 1. Research framework

METHODOLOGY

DATA AND SAMPLE

This study focuses on nonfinancial firms listed on stock exchanges in the ASEAN region. Excluding financial institutions from the sampled firms allows for a detailed examination of how governance influences these firms' core business operations, free from confounding factors in the financial industry. Focusing on Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, the six countries with stock markets, this study employed a representative sample of major economies and diverse political and economic systems. This approach helps us to understand how corporate governance mechanisms affect the stock returns of firms in different ASEAN nations, political systems, and economic periods. The validity and reliability of this study depend on the careful selection of firms with adequate coverage for all the relevant variables from 2012 to 2022. The availability of data varies widely across countries and firms. Therefore, firms that met the criteria for data adequacy were sampled and taken cognisant of the proportional distribution of the sampled firms to enable equal representation by firms from the six countries in the ASEAN region. Each of the six countries contributed 41–104 firms to a sample of 412 firms (see Table 1). The justification for choosing the sample period in the study of nonfinancial firms in the ASEAN region covering 2012-2022 is predominately due to the accessibility of comprehensive and consistent datasets, which are required for conducting an in-depth longitudinal analysis. All the data for this study were obtained from the LSGE-Eikon database. This data source was chosen for its reliability, broad coverage, and user-friendliness. This platform is ideal for this study, which covers financial and corporate governance data from across economies, assuring the high quality and reliability of the research data by using LSGE-Eikon's reputation and influence.

TABLE 1. Sample non-firnancial firms from each country

S/N	Country	No. of Firms Sampled	Percent
1	Indonesia	104	25.24
2	Malaysia	76	18.45
3	Philippines	41	9.95
4	Singapore	59	14.32
5	Thailand	83	20.15
6	Vietnam	49	11.89
	Total	412	100.00

VARIABLE MEASUREMENT

DEPENDENT VARIABLE – STOCK RETURNS MEASUREMENT

This study employs stock returns as the dependent variable, measured as the annualized percentage change in stock prices. This metric is widely accepted and reflects investor perceptions of future profitability and growth. Stock returns are influenced by various factors including governance leverage (Ng et al. 2024).

MODERATING VARIABLE – FIRM GROWTH MEASUREMENT

The PBR is used to measure investor expectations for future growth. High firm growth may have a negative moderating influence, meaning that firms with high growth may be less affected by changes in corporate governance and leverage when investors anticipate high returns (Benkraiem et al. 2023).

INDEPENDENT VARIABLES MEASUREMENT

This study examines four corporate governance mechanisms as independent variables: board independence, size, gender diversity, inclusion of an independent audit committee, and leverage (debt-to-equity ratio). This study hypothesized that a higher proportion of independent directors on a board is likely to have a positive effect on stock returns because of their unbiased supervision and monitoring (Macey 2021). However, board size may exhibit a mixed relationship characterized by a U-shaped pattern. Larger boards may provide a wider range of viewpoints, but they may have difficulty coordinating their efforts (Zubeltzu-Jaka et al. 2020). Furthermore, board gender diversity, measured as the proportion of female directors, is theorized to have a positive impact on returns by bringing in a broader range of viewpoints and enhancing decision-making quality (Gharbi & Othmani 2023). An independent audit committee is expected to have a positive effect on stock returns by improving the quality of financial reporting and reducing the likelihood of fraudulent activities. It is measured as the proportion of independent directors on the audit committees of firms (Leng et al. 2022). This study also includes leverage, quantified by the D/E ratio. Increased leverage may enhance stock returns by effectively utilizing borrowed money, but it also exposes businesses to increased financial risk and the possibility of bankruptcy (Ghardallou 2023).

CONTROL VARIABLE MEASUREMENT

This study controlled for return on equity (ROE) and firm size, to account for confounding factors. ROE is calculated by dividing net income by shareholder equity, and serves as a measure of profitability. This study anticipates a direct relationship between stock returns and ROE. Firm size, as determined by the natural logarithm of total assets, was also considered a control variable. This study also includes industry, country, and year dummies in the model to account for the variations and effects of countries and business cycles across countries and industries. Table 2 presents the variables, notations, measurements, and data sources used.

TABLE 2. Variable, notation, measurement and data source

Variable	Notation	Measurement	Source
Dependent Variable			
Stock Returns	SRt	(Current closing price - Previous closing price) / Previous closing price × 100	LSGE-Eikon database
Moderating Variable			
Firm Growth	FGr	Current market price per share / Book value per share	LSGE-Eikon database
Independent Variables			
Board Size	BSIZE	Count of board members	LSGE-Eikon database
Board Independence	BIND	Number of independent directors / Number of total directors	LSGE-Eikon database
Audit committee independence	ACIND	Number of independent audit committee members/number of total audit committee members	LSGE-Eikon database
Board Diversity (Gender)	BDIVG	Number of female directors / Number of total directors × 100	LSGE-Eikon database
Leverage	D/E	Total Debt / Total Shareholder Equity	
Control Variables			
Profitability	ROE	Net income / Average shareholders' equity	LSGE-Eikon database
Firm Size	SIZE	Natural logarithm of total asset	LSGE-Eikon database
Industry Dummies		Industry dummies to account for variations of industries	LSGE-Eikon database
Country Dummies		Country dummies to account for variations of countries	LSGE-Eikon database
Year Dummies		Year dummies to account for variations of years	LSGE-Eikon database

MODEL SPECIFICATION

This study highlights the limitations of using Ordinary Least Squares (OLS), Pooled OLS and Fixed/Random Effects Regression models to analyze the relationship between corporate governance mechanisms, leverage, firm growth, and stock returns due to the risk of endogeneity. Endogeneity occurs when the variables that affect stock returns also affect corporate mechanisms, leverage, and firm growth, leading to distorted estimations of their relationships. To address this concern, we employed a generalized method of moments (GMM) with instrumental variables (IVs). The GMM uses IVs that are connected with stock returns but not directly with the error term, reducing the influence of endogeneity bias and providing a more accurate understanding of the cause-and-effect relationship between stock returns, corporate governance mechanisms, and leverage.

The dynamic specification of the GMM, implemented using a two-step approach, also addresses the problem of reverse causality (Coffie et al. 2020). Using previous stock return values as instrumental variables, this study examines how past stock returns affect current corporate governance mechanisms and leverage to ensure a more robust analysis. GMM has several advantages over OLS and fixed/random effects models (Baltagi 2015). It is more resilient to heterogeneity as it does not require assumptions of homogeneity across companies. GMM also reduces susceptibility to measurement errors in specific variables and effectively addresses challenges, such as heteroscedasticity and autocorrelation in the error term, ensuring the reliability and accuracy of the findings (Gujarati 2018). The two-step GMM estimator is more efficient than the one-step estimator because it generates

more effective instrumental variables in the first stage and provides more accurate estimations of the association between corporate governance mechanisms and leverage, firm growth, and stock returns in the second step. Thus, a dynamic panel model that includes lagged values of the dependent variable (e.g. stock returns) as regressors with one lag is generally stated as follows:

$$y_{it} = a + bx_{it} + \rho y_{it-1} + \varepsilon_{it} \quad (1)$$

The empirical model is as follows:

$$SRt_{it} = \alpha_0 + \alpha_1 SRt_{it-1} + \alpha_2 BIND_{it} + \alpha_3 BSIZE_{it} + \alpha_4 BDVIG_{it} + \alpha_5 ACIND_{it} + \alpha_6 D/E_{it} + \alpha_7 M_{it} + \sum_{2}^{N} \alpha_i X_{it} + \delta_i + \delta_t + \varepsilon_{it} \quad (2)$$

where SRt_{it} is stock returns for individual firms i at the time t. α_0 is the constant. $BIND_{it}, BSIZE_{it}, BDVIG_{it}, ACIND_{it}$ are the corporate governance mechanisms for individual firms i at the time t. M_{it} is the moderating variable firm growth for individual firms i at the time t. X_{it} is the control variables return on asset and firm size for individual firms i at the time t and the dummies (refer to Table 1) ε is the error term and $\alpha_1 - \alpha_6$ are the coefficients for the variables?

RESULTS

DESCRIPTIVE STATISTICS

TABLE 3. Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max	Obs
lnSRt	2.716	0.924	-3.736	9.181	4,534
FGr	3.767	6.517	-12.080	149.633	4,316
BSIZE	9.914	3.719	-1.000	25.667	4,428
lnBIND	3.783	0.601	-28.553	5.232	4,402
BDIVG	14.799	13.074	0.000	80.000	4,411
ACIND	85.295	23.275	0.000	100.000	4,477
D/E	4.739	7.058	-9.389	52.180	4,502
ROE	0.122	1.785	-113.155	11.433	4,206
SIZE	13.602	0.753	9.382	15.936	4,195

Note: *p < .05, **p < .01. lnSRt is the natural log of stock returns. lnBIND: Natural log of board independence. BSIZE: board size. BDIVG: board gender diversity. ACIND: audit committee independence. D/E: debt-to-equity ratio. FGr : firm growth. ROE: return on asset. SIZE: firm size.

Table 3 provides an overview of the key variables in this study, including their central tendencies and ranges. The average stock returns are positive, with a gain of 2.716. However, a large standard deviation suggests a high level of stock market volatility. The average trading multiple for firms based on firm growth is 3.77, but a wide range of values indicates significant variation. The board has an average size of 9.914 members, with 3.783 independent directors. However, there are variations in both size and level of independence, indicating differences among the firms. The average gender diversity on boards is 15%, ranging from no female representation to almost equal representation. Both audit committees and firms prioritize independence and maintain a modest level of leverage. The measure of profitability, as indicated by the ROE, shows positive growth on average. However, a significant standard deviation suggests wide variation in profitability among firms.

TABLE 4. Pearson corelation matrix

lnSRt	lnBIND	BSIZE	BDIVG	ACIND	D/E	FGr	ROE	SIZE	
lnSRt	1								
lnBIND	0.009	1							
BSIZE	-0.007	-0.062**	1						
BDIVG	-0.020	0.064**	0.242**	1					
ACIND	0.025	0.020	-0.002	-0.002	1				
D/E	0.094**	-0.017	-0.022	0.055**	-0.031*	1			
FGr	0.078**	-0.010	-0.021	0.019	0.011	0.234**	1		
ROE	0.008	0.002	-0.003	0-.009	-0.005	0.013	0.102**	1	
SIZE	-0.159**	0.064**	0.119**	0.026	-0.040*	-0.604**	-0.232**	0.018	1

Note: *p < .05, **p < .01. lnSRt is the natural log of stock returns. lnBIND: Natural log of board independence. BSIZE: board size. BDIVG: board gender diversity. ACIND: audit committee independence. D/E: debt-to-equity ratio. FGr: Firm growth. ROE: return on asset. SIZE: firm size.

Table 4 displays the Pearson correlation matrix, which provides information on the absence of serious multicollinearity among the study variables. Although some correlations are statistically significant, such as the -0.604 correlation between size and D/E, none is above the usually accepted threshold of 0.8 or 0.9 (Shrestha 2020). This suggests that there is no substantial multicollinearity issue. This is further reinforced by the consistently low values in the correlation matrix.

REGRESSION RESULT ANALYSIS

The results presented in Table 5 show that corporate governance proxies such as board independence, board size, and audit committee independence have a significant influence on the stock returns of the ASEAN region. Previous studies have established a positive association between board independence and high stock returns, thereby offering empirical support from the agency theory perspective (Akbar et al. 2020; Teh et al. 2016). These findings indicate that firms with more independent boards generate higher stock returns, thus validating H_{1a}, H_{1c}, and H_{1d}. Alkhawaja et al. (2023) provide empirical evidence to support the hypothesis that board gender diversity is positively related to stock return. Hypothesis H_{1b} posits that increased stock returns are the result of gender diversity on corporate boards, which enhances decision-making, diminishes biases, and fosters objective judgements. This implies that corporate boards with diverse gender representations enhance stock performance by promoting diverse viewpoints, reducing groupthink, and promoting well-rounded decisions regarding stakeholders' concerns. This reduces subjective judgement skewness, demonstrating the firm's management and ability to overcome obstacles and capitalize on fortunate situations.

Studies have produced contradictory findings regarding the relationship between board size and stock returns (Le et al. 2023; Zubeltzu-Jaka et al. 2020). However, the influence of firm growth on these relationships is significant and positive, supporting H_{3c}. Likewise, the interaction between board gender diversity and firm growth is significant and positive, confirming H_{3b}. According to empirical research by Abdeljawad et al. (2020), the independence of the board and audit committee is positively linked to stock return. The moderating effect of firm growth indicates that investors in rapidly expanding firms attribute more significance to precise information and robust financial reporting. Consistent with hypotheses H_{3a} and H_{3d}, this effect may strengthen the positive correlation between board independence, audit committees, and stock returns. Furthermore, the findings establish a positive relationship between leverage and stock returns, which is consistent with trade-off theory supporting H_2. Also, the results support Aharon and Yagil's (2019) research, who found that variance of stock returns positively correlates with financial leverage, highlighting typical risk-return dynamics seen in leveraged firms. Firms may increase their profits by gaining access to additional resources through their leverage. This is particularly beneficial for companies with higher price-to-book ratios (H_4), as investors are more willing to accept the increased risk in return for greater financial returns (Benkraiem et al. 2023).

TABLE 5. Two-step system GMM results of corporate governance mechanisms, FIRM GROWTH , leverage and stock return

	Dependent variable: Stock Returns (lnSRt)				
	Model 1	Model 2	Model 3	Model 4	Model 5
Variable					
lnSRt(-1)	0.263**	0.225**	0.226**	0.228**	0.209**
	(13.38)	(5.25)	(6.50)	(6.49)	(5.89)
lnBIND	0.227**				
	(6.42)				
FGr	0.305**	0.304*	0.299**	0.697**	0.883**
	(3.22)	(3.17)	(3.34)	(5.04)	(29.31)
FGr×lnBIND	0.294**				
	(3.24)				
BSIZE					
FGr×BSIZE		0.307**			
		(3.20)			
BDIVG			0.697**		
			(5.04)		
FGr×BDIVG			0.065**		
			(10.25)		
ACIND				-0.002**	
				(3.33)	
FGr×ACIND				0.032**	
				(2.64)	
D/E					0.024*
					(2.49)
FGr×D/E					0.026*
					(2.97)
ROE	0.905**	0.482**	1.536**	0.777**	0.212
	(31.72)	(3.39)	(3.63)	(29.98)	(6.03)
SIZE	-0.229**	-0.304*	-0.014**	-0.294**	-0.206*
	(-4.32)	(-3.16)	(-13.88)	(-3.27)	(-2.23)

Constant	2.099**	2.205**	6.183**	6.292**	4.898**
	(21.43)	(14.19)	(5.05)	(5.10)	(3.91)
Industry dummies	Yes	Yes	Yes	Yes	Yes
Country Dummies	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes
AR(1)	(0.183)	(0.241)	(0.220)	(0.285)	0.1743
AR(2)	(0.235)	(0.253)	(0.500)	(0.414)	(0.955)
Sargan Test	(0.791)	(0.729)	(0.745)	(0.527)	(0.859)
Hansen J-test	(0.546)	(0.467)	(0.484)	(0.386)	(0.762)
Wald χ^2	59.65**	58.31**	57.78**	66.99**	65.79**
Instruments	24	24	24	24	24
Firms	409	410	410	410	410
Observations	3,656	3,680	3,663	3,707	3,750

Note: *p < .05, **p < .01. lnSRt is the natural log of stock returns. lnBIND: Natural log of board independence. BSIZE: board size. BDIVG: board gender diversity. ACIND: audit committee independence. D/E: debt-to-equity ratio. FGr : Firm growth. ROE: return on asset. SIZE: firm size.

SENSITIVITY ANALYSIS AND ROBUSTNESS TESTING

This study builds upon the existing baseline model by conducting sensitivity analysis and robustness testing, as presented in Table 6. This study examines the influence of different sets of instruments and lag structures on the dependent variable. This study acknowledges uncertainty in instrument selection and creates alternative options based on theoretical and empirical criteria. This study incorporates lagged stock returns to enhance the robustness of our analysis and to avoid reverse causality and endogeneity, focusing on accessible information for a more accurate causation direction. To account for possible dynamic effects and autocorrelation in time-series data, this study uses two lags for both dependent and predetermined variables. This study also considered the option of two maximum lags of predetermined variables for use as instruments. This approach allows the study to capture the effects of previous values and address potential issues related to autocorrelation. This study employed meticulous selection methods and conducted diagnostic tests (e.g. the Hansen J-test). The inclusion of lagged stock returns enhances the validity of the findings by reducing the potential biases resulting from the use of current and future data. The results obtained from our sensitivity analysis and robustness testing are generally consistent with those of the baseline model, indicating that the study results are robust and not excessively influenced by particular modelling decisions.

TABLE 6. Sensitivity and robustness test results on corporate governance mechanisms, FIRM GROWTH , leverage and stock return

	Dependent variable: Stock Returns (lnSRt)				
Variable	Model 1	Model 2	Model 3	Model 4	Model 5
lnSRt(-1)	0.279**	0.271**	0.269**	0.259**	0.278**
	(13.98)	(12.48)	(12.67)	(11.66)	(12.17)
lnSRt(-2)	0.042**	0.039*	0.042*	0.035*	0.047*
	(3.06)	(2.66)	(2.80)	(2.31)	(3.02)
lnBIND	0.2612**				
	(13.34)				
FGr	0.009*	0.125*	0.008*	0.015*	0.156**
	(2.00)	(2.11)	(2.38)	(2.24)	(6.62)
FGr×lnBIND	0.003**				
	(2.50)				
BSIZE		0.639**			
		(27.93)			
FGr×BSIZE		0.036**			
		(6.19)			
BDIVG			0.224**		
			(4.22)		
FGr×BDIVG			0.063**		
			(45.01)		
ACIND				0.001*	
				(2.23)	
FGr×ACIND				0.251**	
				(3.76)	
D/E					0.002*
					(2.17)
FGr×D/E					0.001*
					(2.31)
ROE	1.887**	1.869**	1.815**	1.859**	1.769
	(5.45)	(21.29)	(27.62)	(30.15)	(28.29)
SIZE	-0.244**	-0.246**	-0.255**	-0.242**	-0.210
	(-4.15)	(-3.92)	(-12.05)	(3.62)	(-3.07)
Constant	5.103**	5.236**	4.935**	5.232**	4.673**
	(6.26)	(6.15)	(5.67)	(5.75)	(5.04)
Industry dummies	Yes	Yes	Yes	Yes	Yes
Country Dummies	Yes	Yes	Yes	Yes	Yes

Year Dummies	Yes	Yes	Yes	Yes	Yes
AR(1)	(0.183)	(0.619)	(0.091)	(0.1562)	(0.558)
AR(2)	(0.235)	(0.569)	(0.119)	(0.461)	(0.705)
Sargan Test	(0.682)	(0.087)	(0.224)	(0.321)	(0.298)
Hansen J-test	(0.549)	(0.467)	(0.391)	(0.392)	(0.197)
Wald χ^2	220.19**	198.09**	193.71**	189.18**	272.04**
Instruments	31	31	31	31	33
Firms	407	407	407	406	408
Observations	3,343	3,410	3,408	3,236	3,343

Note: *p < .05, **p < .01. lnSRt is the natural log of stock returns. lnBIND: Natural log of board independence. BSIZE: board size. BDIVG: board gender diversity. ACIND: audit committee independence. D/E: debt-to-equity ratio. FGr: Firm growth. ROE: return on asset. SIZE: firm size.

DISCUSSION

This is consistent with agency theory, which posits that gender diversity and independent committees can function as effective moderators and reduce agency expenses by enhancing oversight and decision-making (Jensen & Meckling 1976). Empirical studies by Akbar et al. (2020) and Teh et al. (2016) demonstrate that stock returns increase when shareholders' and managers' objectives align. Additionally, the study conducted by Alkhawaja et al. (2023) demonstrated the positive influence of gender diversity on the decision-making process and, consequently, on overall profitability and outcomes. This finding underscores the positive effects of board diversity and independence on stock returns. This implies that more women on boards of directors contribute to better financial performance. This is because of the diverse perspectives women bring, which enhances decision-making quality, reduces groupthink, and leads to innovative solutions and better risk management. However, the relationship between board size and return is complex. Le et al. (2023) and Zubeltzu-Jaka et al. (2020) yield contrasting findings. Factors, including the ownership structure of the company, its sector of operation, and its magnitude, are likely to influence the establishment of this correlation. The research findings suggest that the impact of board size is not influenced by firm growth, whereas the influence of board independence and diversity is moderated by firm growth. A higher PBR suggests that investors in high-growth firms may place greater importance on strong governance despite the increased agency costs involved (Saad et al. 2019).

In adherence to agency theory, the presence of independent audit committees is critical for guaranteeing the congruence of interests. Enhancing transparency and reducing information imbalances can bolster investor confidence and potentially increase stock returns. Studies such as Abdeljawad et al. (2020) empirically support the view that a positive correlation exists between stock returns and the level of independence exhibited by audit committees. The findings of this research suggest that the stocks of companies with higher growth exhibit a stronger and more positive correlation with audit committee independence and stock performance. This correlation is comparable to the results observed for board composition. Leng et al. (2022) underscore the significance of robust financial reporting and investor confidence in rapidly expanding firms.

The findings also resonate with trade-off theory, which highlights the link between the prospect of greater financial gain and the augmented financial risk linked to leverage (Ghardallou 2023). The findings reveal a stronger relationship between leverage and stock returns in the case of firms exhibiting higher growth. Owing to the possibility of larger returns, investors in these firms might demonstrate a greater willingness to assume risk (Benkraiem et al. 2023). This aligns with the hypothesis that growth expectations impact the evaluation of risk and rewards when leveraging leverage (Kamath et al. 2024).

MANAGERIAL IMPLICATION

This study highlights the importance of strong governance mechanisms for achieving higher stock returns. It emphasizes the need for diverse and independent boards, gender equality, and efficient communication within the boardroom. Establishing robust independent audit committees and sharing financial information consistently is recommended to promote openness and confidence. In terms of leverage, this study suggests that investors may be more willing to grant leverage to rapidly expanding firms with high growth due to the potential for increased profitability. However, it is crucial to maintain appropriate financial procedures to ensure that the leverage levels remain suitable. The research acknowledges that industry-specific conditions may influence the effectiveness of leverage management

THEORETICAL IMPLICATION

The study enhances and widens the trade-off theory by providing insights into the relationship between leverage, the return-risk trade-off, and market expectations. The study finds that leverage has both advantages and disadvantages, increasing financial risk but also allowing organizations to seek more investment options and potentially earn more. Research shows that leverage effectiveness depends on a firm's perceived value and growth potential as indicated by its PBR. Firms with high growth can retain higher debt levels without affecting investor

confidence, leading to increased profits, without increasing risk. However, low-PBR firms may experience negative effects on stock returns even with a slight increase in leverage because the risks outweigh the benefits. These findings highlight the dynamic and vulnerable nature of the trade-off between debt benefits and financial turbulence risks, emphasizing the importance of careful financial planning and adjustment of leverage to match a firm's capabilities with external investors' expectations.

CONCLUSION

This study examines the relationship between leverage, corporate governance, firm growth, and the stock returns of listed firms in the ASEAN region. The findings indicate a positive relationship between stock returns and board independence, gender diversity, and robust audit committees. This finding suggests that effective governance practices can align interests and reduce agency costs, leading to improved stock performance. This study also highlights the complex relationship between board dimension and return performance. This emphasizes the role of firm growth in mitigating the impact of specific governance variables. Additionally, this study emphasizes the importance of strategic leverage and its correlation with growth expectations. This suggests that firms need to carefully assess potential risks and rewards when leveraging leverage. While this study provides valuable insights into enhancing governance and leverage initiatives in the ASEAN region, it also acknowledges some limitations. The sample size could be expanded to include a wider range of industries and additional data on specific firms and board demographics could provide a more comprehensive perspective. Future research could employ alternative methodologies and extend the study period to enhance the generalisability of the findings further.

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