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Nexus Between Financial Factors and ESG Firm Performance: The Mediating Role of Working Capital Management in ASEAN Capital Market

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ABSTRACT

This study examines the role of key financial factors, which are leverage, corporate governance, and sales growth in influencing company performance in companies that integrate Environmental, Social, and Governance (ESG) principles, with working capital management (WCM) as a mechanism for channeling financial resources. Based on Contingency Theory, Agency Theory, Stakeholder Theory, Legitimacy Theory, Trade-Off Theory, and Resource-Based Theory, this study views corporate performance as the result of interactions between funding structure, governance quality, growth dynamics, and working capital management efficiency. A quantitative approach using panel data regression was applied to companies listed on the Indonesian and Singaporean capital markets during the 2019-2024 period, representing differences in institutional maturity levels in the ASEAN region. The results show that sales growth plays a dominant role in driving company performance in both countries, reflecting the importance of a company's ability to convert market opportunities into value creation. Conversely, leverage tends to limit company performance in more mature markets, while the role of corporate governance and WCM does not show a uniform effect on performance. These findings indicate that when ESG governance practices and standards have been institutionalized, their contribution to performance variation becomes limited. Furthermore, WCM does not function as a mediator in the relationship between financial factors and firm performance, suggesting that in ESG based companies, working capital efficiency plays a greater role as an instrument of operational stability than as a source of short-term competitive advantage. This study enriches the sustainable finance literature by confirming that the relationship between financial decisions, governance, and company performance is contextual and depends on the level of institutional maturity.

KEYWORDS : ASEAN, ESG, firm performance, leverage, corporate governance, sales growth, working capital management.

1. INTRODUCTION

The integration of Environmental, Social, and Governance (ESG) aspects into corporate strategy has emerged as a crucial determinant of Firm Performance in global capital markets, including in the ASEAN region [1]. The term ESG is commonly used by investors to assess companies' activities related to environmental, social responsibility, and corporate governance issues [2]; [3]. Strong ESG performance not only reflects a company's commitment to sustainable and ethical business practices, but also signals long-term value creation for investors, regulators, and other stakeholders [4]. Therefore, ESG metrics have now become a key consideration for institutional and individual investors, encouraging more companies to demonstrate greater commitment to ESG-based activities in order to be recognized as socially responsible entities [1].

The capital markets in the ASEAN region provide a unique and interesting context for studying this phenomenon, characterized by diversity in levels of economic development and institutional maturity [5]. Indonesia, as one of the most active markets, has the largest market capitalization in ASEAN, reaching IDR 11,674 trillion. In contrast, Singapore, as a highly developed financial center, holds the second largest market capitalization of IDR 8,691 trillion [6]. This study utilizes the distinctive contrast between these two countries - Indonesia, as an emerging economy, and Singapore, as an advanced economy - to investigate how companies that have integrated ESG practices are influenced by traditional financial factors [1]. Specifically, we focus on the influence of core financial variables leverage, corporate governance, and sales growth on firm performance [7]; [8]; [9].

The concept of leverage shows that the use of debt can strengthen a company's financial performance. However, the effect of leverage can be either beneficial or detrimental, depending on the rate of return generated by the company from the use of borrowed funds [10]. The implementation of corporate governance concepts aims to protect the interests of all stakeholders by ensuring that companies are managed legally, ethically, and in accordance with applicable regulations if done effectively [10].

Sales growth can reflect the success of a company's business and marketing strategies in responding to market demand. In an empirical context, sales growth is seen as an indicator of a company's future prospects because it is closely related to the potential for improved performance and competitiveness [11].

Firm performance aims to see the extent to which a company has succeeded in achieving its goals, which are usually measured through financial and operational results [12]. Good performance demonstrates the effective and efficient use of resources to generate profits and value for shareholders and other stakeholders. Recent research also shows that corporate performance includes financial results and market results that demonstrate the company's competitiveness and growth in the long term [13]. Working Capital Management (WCM) is an important aspect of corporate financial management because it is directly related to the management of short-term assets and liabilities to support smooth operations and maintain a balance between liquidity and profitability [14]; [15] [16]; [10].

Therefore, this study proposes that Working Capital Management (WCM) acts as a crucial mediating variable in the influence between corporate financial factors and performance, especially for companies committed to Environmental, Social, and Governance (ESG) principles. Efficient WCM optimizes the trade-off between liquidity and profitability, ensuring that companies can meet their short-term obligations without sacrificing investment in value-creating opportunities [17]; [18]. Conversely, inadequate WCM can lead to liquidity constraints and increased funding costs, which ultimately hinder ESG performance, especially when companies have to fund sustainability initiatives that often require large upfront capital allocations.

In Indonesia, rapid economic growth is faced with challenges in institutional enforcement and access to capital. Companies in this context are highly dependent on WCM efficiency to free up internal resources that can be allocated to sustainability oriented investments while maintaining financial performance stability [19]. Conversely, Singapore benefits from a mature capital market, a strong governance framework, and high investor demand for assets that comply with ESG principles. In this study, WCM serves not only as a tool for survival, but also as a strategic instrument to improve company performance and maintain ESG excellence.

Previous studies show that governance mechanisms and financial policies significantly affect WCM efficiency and firm performance [20]; [21]. WCM's role as a mediator is also an important focus in bridging funding decisions with final performance results [22]. However, how does this dynamic affect the results of companies that implement ESG in contrasting economic contexts, such as Indonesia and Singapore? Previous studies have generally analyzed the effects of leverage, corporate governance, and sales growth separately or within a conventional financial framework, without considering the interaction of these three factors in ESG-based companies in the ASEAN region. Understanding these variations is crucial because WCM efficiency can bridge the gap between traditional financial performance metrics and the implementation of ESG principles. Therefore, understanding how differences in institutional quality and capital market maturity affect the effectiveness of WCM in improving the performance of ESG-based companies is still not comprehensive.

This study fills this gap by positioning Working Capital Management (WCM) as the main mediating variable in the relationship between leverage, corporate governance, and sales growth on Firm Performance in companies that have integrated ESG principles. Using a comparative approach between Indonesia and Singapore as representatives of developing and developed countries in the ASEAN region, this study provides new empirical evidence on how differences in institutional characteristics and market maturity influence the strategic role of WCM. In addition, both countries are also active in the capital market. Supported by several theoretical foundations, namely Contingency Theory, Agency Theory, Stakeholder Theory, Legitimacy Theory, Resource-Based View, and Trade Off Theory, this study argues that efficient WCM acts as a strategic channel capable of transforming financial resources into increased Firm Performance that integrates ESG. The results of this study are expected to contribute significantly to the growing literature on sustainable finance and offer empirical insights for policymakers, investors, and corporate managers operating in emerging and developed markets in the ASEAN region [5].

2. LITERATUR REVIEW

2.1. Contingency theory

Contingency theory emphasizes that there is no single managerial policy that is considered "best" for all organizations; instead, the effectiveness of structures and practices depends heavily on situational conditions, such as environment, technology, size, and resources [23]. In the literature on financial management and working capital, the contingency approach is used to explain variations in the influence of working capital management (WCM) practices, including cash conversion cycle, inventory, accounts receivable, and liquidity, on firm performance [16]. This effect is moderated by external conditions, such as market or industry uncertainty, as well as internal characteristics, such as management control and company size [24].

This theory explicitly states that organizational effectiveness depends on the alignment between strategy, structure, and environmental conditions. For example, sales growth is not a factor that automatically improves performance, but requires strategic adjustments in working capital. High-growth companies need additional inventory and accounts receivable, and if WCM policies fail to adjust to these expansion needs, growth can actually extend the cash conversion cycle and increase liquidity pressure. Conversely, a company's ability to adjust its operational structure and internal systems to the dynamics of growth will transform sales growth into increased WCM efficiency, which ultimately improves firm performance [25].

2.2. Agency theory

Agency Theory is rooted in the separation of ownership (principal) and control (agent), which gives rise to conflicts of interest or agency problems [26]; [12]. In the corporate finance domain, this conflict can influence managers' policy choices, which may lean toward personal preferences (e.g., risk aversion or high liquidity needs) that can be detrimental to shareholders. The literature links agency costs to working capital decisions. Managers maintain excess working capital balances in order to reduce variability or maintain power, or conversely, make inefficient opportunistic decisions. The consequences of this agency problem lead to suboptimal WCM management.

Recent empirical research shows that corporate governance mechanisms, such as board independence, ownership structure, and audit quality, play a crucial role in reducing agency problems and improving WCM efficiency. These control mechanisms limit opportunistic management behaviour, such as inventory hoarding or loosening credit policies for personal gain. With strong governance, working capital policies become more controlled and efficient, which significantly improves Firm Performance [27]. Research [25] juga also emphasizes the need for further research on the impact of agency issues on firm performance.

2.3. Stakeholder theory

Stakeholder Theory expands the focus of corporate objectives beyond simply maximizing shareholder value; it requires companies to consider the interests of various stakeholders such as employees, suppliers, customers, communities, and creditors [28]. This perspective emphasizes that achieving corporate goals requires management's ability to manage and balance the diverse interests of stakeholders [29].

In working capital management, this theory emphasizes the importance of maintaining harmonious relationships with the entire value chain. [30] states that efficient working capital management is not only aimed at profitability, but also at meeting stakeholder expectations through maintaining adequate liquidity, so that the company can fulfill its short-term obligations to suppliers and creditors in a timely manner.

The study [31] emphasizes that strong stakeholder engagement, including relationships with labor and ownership structures, has a direct impact on company performance. They found that optimal working capital management, such as a high accounts receivable turnover ratio, contributes positively to company performance when it is aligned with the strategic interests of stakeholders.

2.4. Legitimacy Theory

Legitimacy Theory states that companies strive to achieve and maintain social acceptance by aligning their activities and disclosures with the values and expectations of society [32]; [33]. Companies often use information disclosures such as sustainability reports and governance performance reports to demonstrate that their activities are legitimate and responsible [17]. To gain legitimacy, companies must not only focus on financial performance, but also demonstrate positive contributions to stakeholders through good social, environmental, and governance (ESG) practices [34].

A company's success in maintaining legitimacy through transparent disclosure has a direct impact on access to resources, including short-term financing. According to [34], legitimacy helps companies attract foreign investors and increase customer satisfaction, which indirectly provides flexibility in working capital management. With a strong reputation and legitimacy, companies have better bargaining power with suppliers and creditors, making it easier for them to obtain funding from investors.

However, there are challenges in implementing strategic and situational legitimacy. [35] through the perspective of Contingency Theory in crisis and conflict management, emphasize that the effectiveness of corporate actions, including maintaining legitimacy, is highly dependent on environmental dynamics and the complexity of the issues faced. Criticism of "symbolic disclosure" suggests that if legitimacy efforts are merely cosmetic without substantive changes in working capital operations, their positive effect on WCM efficiency will be weakened. Thus, the effectiveness of this theory in the context of WCM depends on whether companies make real changes in their governance and working capital management or merely fulfil external demands symbolically to maintain their corporate image.

2.5. Resources based view

The Resource-Based View (RBV) emphasizes that a company's competitive advantage stems from internal resources that possess VRIN characteristics (Valuable, Rare, Inimitable, Non-substitutable) [36]. In the context of Working Capital Management (WCM), the Resource-Based View (RBV) is used to explain how strategic internal capabilities influence the effectiveness of working capital management. According to Kero & Bogale (2023), this theory emphasizes that sustainable competitive advantage stems from the ownership of resources that are valuable, rare, inimitable, and non-substitutable. Effective WCM reflects an organization's capability to integrate internal processes, information technology, and superior supply chain management. The ability to manage liquidity intelligently and advanced financial information systems are not merely administrative tasks, but intangible assets that reflect a company's dynamic capability to adapt to changes in the business environment [37].

The research by [38] confirms that the impact of these strategic resources on performance varies between companies. This means that companies with superior WCM capabilities can achieve operational efficiencies that are difficult for competitors to match, thereby contributing directly to increased profitability or sales growth and competitiveness in the market. Empirical evidence shows that higher performance is achieved when companies are able to optimize their specific assets to support operational activities. This competitive advantage arises when companies focus not only on short-term efficiency, but also on the ability of their internal resources to maintain their market position amid uncertainty.

2.6. Trade-Off Theory

Trade-Off Theory in capital structure states that companies must seek an optimal level of debt by balancing the benefits of using debt (such as tax shields) with the costs associated with bankruptcy risk, liquidity risk, and potential financial distress [39]. Recent empirical literature shows that capital structure (leverage) plays a significant role in determining a company's flexibility and working capital policy. Based on the Trade-Off Theory framework, companies seek to find the optimal balance between debt usage and liquidity levels to maximize profitability. According to [40], liquidity represented by the current ratio or cash ratio not only has a positive impact on profitability, but also functions as a stabilizer that mitigates the risk of financial failure due to high leverage.

In situations where companies have high levels of debt, pressure from creditors can create managerial discipline. Study conducted by [41] certain extent because it forces managers to be more efficient in managing assets, including accelerating the turnover of working capital components. This is in line with the premise that debt can be a control tool to reduce agency problems related to idle cash. However, the study also warns of an inflection point; if the leverage ratio exceeds the optimal capacity, heavy interest expenses will erode operating cash flow and increase the risk of financial distress.

The impact of leverage on company performance is often non-linear. [40] found that although debt can increase Return on Assets (ROA) or Return on Equity (ROE) through the financial leverage effect, strong liquidity is still necessary as a constraint. Working capital management (WCM) functions as an equilibrium mechanism that balances debt structure risk with daily operating cash flow and increase the risk of financial distress.

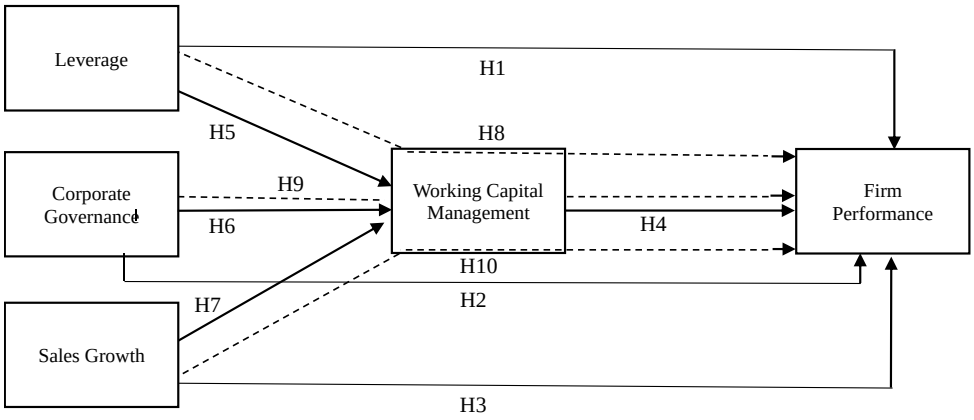

Fig. 1 Conceptual Framework

2.7. Leverage and Firm Performance

The effect of leverage on company performance remains a major debate in capital structure theory and trade-off theory, with empirical findings often showing mixed evidence [42]. Leverage refers to the use of debt to finance operations and investments with the aim of increasing shareholder returns, but at the same time increasing the company's financial risk. A number of empirical studies show that leverage tends to have a negative impact on company performance due to increased interest costs and the risk of financial distress, which ultimately depresses profitability [7].

This finding is supported by a study of consumer goods companies on the Johannesburg Stock Exchange, which shows that high dependence on external debt can disrupt financial performance stability [43]. Although trade-off theory recognizes the benefits of debt through tax shields up to an optimal level, the effectiveness of leverage is highly dependent on economic conditions and market characteristics. Comparative studies show that companies in developing countries face greater challenges in debt management than those in developed countries, as reflected in the difference in the impact of leverage on company performance [15]. Therefore, companies need to carefully balance their capital structure to avoid liquidity risks that could undermine long-term value [42]; [44].

H1: The Effect of Leverage on Firm Performance.

2.8. Corporate Governance and Firm Performance

Within the framework of Agency Theory, Corporate Governance (CG) is viewed as a crucial mechanism for mitigating conflicts of interest or agency problems between managers and shareholders. Agency problems arise when managers tend to pursue personal interests that can harm the value of the company. Recent bibliometric analysis confirms that agency issues have a direct and significant impact on corporate performance, where effective governance serves as a supervisory instrument to align managerial objectives with the interests of capital owners [20].

A robust governance system, which includes internal oversight and an efficient resource structure, has proven to be a key driver in improving financial performance. In strategic industrial sectors, efficiency in total resource management and good operational governance provide a stable foundation for sustainable revenue growth and profitability [21]. Effective CG mechanisms, such as transparency and accountability, not only reduce agency costs but also increase investor confidence, which ultimately has a positive impact on the company's market value.

Corporate governance principles within the company framework significantly improve operational efficiency. Oversight conducted through an independent board of commissioners and institutional ownership strengthens managerial discipline, which is empirically linked to increases in Return on Assets (ROA) and Return on Equity (ROE) [45]; [46]. Thus, the quality of internal oversight remains key to achieving superior financial performance.

H2: The Effect of Corporate Governance on Firm Performance.

2.9. Sales Growth and Firm Performance

The relationship between sales growth and firm performance is generally believed to be positive. Increased sales reflect broader market acceptance of the company's products and managerial ability to expand market share, which ultimately becomes the main driver of profitability [19]. Consistent revenue growth sends a positive signal to investors about the company's future prospects, which is often reflected in an increase in company value [47]. Empirically, recent studies show that sales growth has a significant and positive effect on the financial performance of companies in various sectors.

In Indonesia, sales growth has been proven to directly increase profitability due to operational efficiencies created by economies of scale [19]. Furthermore, in the energy and infrastructure sectors, stable sales growth is a vital indicator that strengthens a company's financial position and competitiveness in the capital market [48]; [47]. However, this influence is also affected by other structural factors. From a broader perspective in Southeast Asia, sales growth plays an important role in shaping the relationship between capital structure and company performance, where strong growth can mitigate the negative impact of debt burdens [11]. However, rapid growth must be supported by adequate total resources to avoid putting pressure on liquidity and financial stability [21].

H3: The Effect of Sales Growth on Firm Performance.

2.10. Working Capital Management and Firm Performance

Working Capital Management is a crucial aspect of financial management because it has a direct impact on the liquidity and daily operational profitability of a company. Efficient working capital management aims to ensure an optimal balance between current assets and current liabilities in order to maximize company value [49]. Dominant empirical findings, especially those using the Cash Conversion Cycle as the main proxy, show a significant negative influence between the length of the cash cycle and financial performance [16]; [15]; [19]. A shorter CCC reflects higher efficiency in converting resources into cash, which directly increases company profitability. In various countries, both developed and developing, it has been found that accelerated collection of receivables and strict inventory management are positively correlated with asset returns [15].

In addition to CCC, other proxies such as Current Ratio (CR) are used to assess the ability of current assets to cover short-term liabilities. Although adequate liquidity is important for operational security, excessively high liquidity levels without productive asset management can actually hamper profitability [46]. Conversely, in the manufacturing industry, it has been found that accelerating payments to suppliers (shortening the Average Payment Period) is sometimes associated with a decline in profitability, indicating the benefits of utilizing trade credit as a source of cheap funding [16]. Strict inventory management in the early stages can add value to the company through increased operational efficiency. However, if applied excessively, this strategy has the potential to reduce the company's market value due to lost sales opportunities that cannot be fulfilled [18]. Therefore, companies must achieve an optimal point in working capital management that aims to avoid wasteful investment in unproductive assets while maintaining operational stability [50].

H4: The Effect of Working Capital Management on Firm Performance.

2.11. Leverage and Working Capital Management

Leverage reflects the extent to which a company uses debt to finance its assets, which directly affects the company's WCM policy. Based on the views [15], specific company factors such as capital structure are important determinants that affect the efficiency of the cash conversion cycle, both in developed and developing markets. Companies with high leverage often face greater liquidity pressures due to fixed obligations in the form of interest and principal payments. This condition forces managers to manage working capital more tightly to ensure sufficient cash flow to meet these obligations [19].

The relationship between leverage and WCM is often competitive in the battle for internal resources. Financing decisions through debt require companies to balance long-term obligations with daily operational needs. [45] explain that leverage is a key variable that interacts with working capital components in determining profitability levels. In situations where companies have large debt burdens, there is a tendency to accelerate working capital turnover in order to maintain financial stability [46].

A balanced leverage policy coupled with efficient working capital management is a key prerequisite for improving

profitability and company value [17]. Integrated management of debt and working capital policies enables companies to minimize the risk of financial distress while maintaining investment flexibility in productive current assets [49]. Failure to manage this relationship not only disrupts the operational cycle, but can also erode the confidence of creditors and investors.

H5: The Effect of Leverage on Working Capital Management.

2.12. Corporate Governance and Working Capital Management

Financial management literature emphasizes that corporate governance plays a fundamental role in determining the efficiency of operational policies, including WCM. This relationship is theoretically rooted in Agency Theory, which views working capital as an area prone to conflicts of interest between managers (agents) and shareholders (principals). According to [20] agency problems arise when managers have incentives to allocate resources for their personal interests or job security rather than maximizing company value. CG mechanisms serve as a control system to align these interests and ensure that managers manage working capital efficiently.

Specifically, corporate governance influences how managers make decisions regarding liquidity and current asset investments. In a study by [51] non-financial companies in Europe showed that governance characteristics have a significant relationship with working capital management. Without adequate supervision, managers tend to adopt suboptimal working capital policies such as hoarding excess cash or lax inventory management to mitigate their own operational risks, even though this can erode profitability. Therefore, strong CG mechanisms, such as the role of the board of directors and audit committee, serve as a mitigation tool against managerial inefficiency. Research by [52] on public companies in Malaysia confirms that governance attributes such as CEO tenure, CEO duality, board size, and audit committee effectiveness influence WCM efficiency. Research by [18] notes that working capital efficiency is very important because it has a direct impact on market value and company performance.

In addition, other internal characteristics of the company also play a role in this relationship. [53] explain that board characteristics and firm characteristics collectively determine the transparency and accountability of management in reporting and managing resources, including working capital. Disciplined WCM management of accounts receivable, inventory, and accounts payable components is a reflection of managerial discipline driven by good governance.

H6: The Effect of Corporate Governance on Working Capital Management.

2.13. Sales Growth and Working Capital Management

Sales growth is a key indicator of market expansion and corporate competitiveness, which significantly influences working capital management strategies. Based on Contingency Theory, companies must align their working capital management practices with economic growth and market competition conditions in order to maintain competitive performance. Increased sales volume essentially requires adjustments to current assets to support higher operational activities.

In a study [9] on SMEs in Central and Eastern Europe, it was found that company growth has a negative effect on working capital management variables. This finding supports the cash cycle theory, which states that growing companies tend to manage their working capital more dynamically and efficiently, thereby shortening their cash conversion cycle. Conversely, when viewed from the operational cycle theory, a surge in sales can increase demand for inventory and accounts receivable. If not managed properly, this will actually lengthen the cash cycle and increase liquidity risk.

From a competitiveness perspective, [24] emphasize that successful working capital management is a strategic tool for companies to navigate more challenging economic growth. In their study [54] highlight that in the expansion phase, companies often face challenges in accessing external funding, making cash holdings a key factor. Sustained sales growth enables companies to optimize cash levels to support production and investment processes without having to rely on expensive external debt. Therefore, working capital management policies that are integrated with growth rates are essential to maintaining the sustainability and financial performance of companies.

H7: The Effect of Sales Growth on Working Capital Management.

2.14. Leverage, Working Capital Management and Firm Performance

The relationship between leverage and firm performance is a complex interaction rooted in capital structure theories, such as Trade-off Theory and Pecking Order Theory. [42] explain that the use of debt can increase firm value and returns to shareholders at moderate levels, but excessive debt burdens risk causing financial difficulties that can damage long-term performance. In an operational context, leverage policy greatly affects a company's flexibility in managing working capital. [55] found that leverage has a significant negative impact on company performance in the energy sector, where high debt obligations often force managers to prioritize interest payments over investment in efficient working capital components. This is in line with the findings of [46], which emphasize that prudent leverage policies and effective working capital management together are key determinants of financial performance, especially in industries with high cash flow uncertainty such as construction.

The mediating role of Working Capital Management in this relationship is crucial. Empirical evidence shows that working capital (measured by current ratio and quick ratio) mediates the relationship between debt financing and financial performance [22]. These findings indicate that the impact of debt on company performance is highly dependent on how the funds are allocated to maintain operational liquidity. If a company is able to convert debt financing into efficient working capital management, financial performance will improve; however, if debt disrupts the cash cycle, performance will decline.

In addition, [17] state that WCM and leverage affect company value through profitability. This is reinforced by [45], who highlight that working capital efficiency in maintaining liquidity allows companies with a certain level of leverage to remain competitive and generate profits. [15] also add that the management of working capital components, such as cash conversion cycles, is a distinguishing factor in company performance in emerging economies, where access to funding is often more limited.

Overall, it is emphasized that leverage does not directly determine performance, but rather through the effectiveness of working capital management. Disciplined management of current assets and liabilities acts as a buffer mechanism that ensures that the financial burden of debt does not interfere with the operational stability and profitability of the company [7]; [49].

H8: The Effect of Leverage on Firm Performance through Working Capital Management.

2.15. Corporate Governance, Working Capital Management and Firm Performance

From the perspective of Agency Theory, Corporate Governance (CG) acts as a crucial oversight mechanism to mitigate conflicts of interest between managers (agents) and shareholders (principals). In a study by [20] through bibliometric analysis, it was confirmed that agency issues remain the main focus in determining company performance, where effective governance serves to limit opportunistic behavior by managers in short-term financial decision-making, including working capital management.

In a systematic literature review [56] revealed that governance attributes such as board independence, meeting frequency, and the existence of an audit committee are closely related to the efficiency of current asset management. Strong CG ensures that investments in working capital are made optimally to support liquidity and operations without sacrificing profitability. This shows that good governance practices create managerial discipline that directly improves the efficiency of Working Capital Management.

Working Capital Management then acts as a channel that passes on the positive impact of governance on company performance. In their study [16] found that working capital components such as cash conversion cycle (CCC) have a significant effect on performance indicators such as Net Profit Margin (NPM). Companies with good governance tend to have shorter cash cycles and tighter inventory management, which ultimately increases the market value and profitability of the company [18]. [27] emphasize that in a dynamic market environment, effective governance helps companies align their working capital strategies with their financial performance targets. Support from an effective board structure enables better oversight of accounts receivable and accounts payable, thereby minimizing liquidity risks that can hinder performance achievement [45].

Overall, recent literature shows that corporate governance not only directly affects performance through strategic policies, but also indirectly by promoting efficiency in working capital management. Disciplined governance ensures that short-term resources are managed transparently and accountably, which is the foundation for creating financial stability and improving sustainable company performance [31]; [20].

H9: The Effect of Corporate Governance on Firm Performance through Working Capital Management.

2.16. Sales Growth, Working Capital Management and Firm Performance

Sales growth is a crucial indicator of a company's market success, but this phenomenon often poses a challenge in financial management if not managed properly. A significant increase in sales volume automatically requires greater working capital investment, especially to fund accounts receivable from credit sales and maintain inventory availability to meet surging demand [9].

In this context, Working Capital Management (WCM) acts as a balancing mechanism that determines whether this growth will generate profits or create liquidity pressures. Recent research shows that WCM efficiency has a significant inverse effect on the financial performance of companies in both developed and developing countries; that is, the shorter the cash conversion cycle, the higher the profitability generated [15].

Strategic working capital management is key for companies to navigate risks during the expansion phase to ensure that sales growth is truly converted into sustainable financial performance [16]. In Southeast Asia, sales growth has been shown to make a strong positive contribution to company performance, but the effectiveness of this contribution is highly dependent on how companies manage their capital structure and operational efficiency [11].

A company's inability to manage current assets during a period of growth can lead to over-investment, which actually reduces the return on assets or ROA [27]. Hence, integration between growth strategies and strict working capital policies is essential to maintain profitability stability and increase overall company value [19]; [48].

H_{10}: The Effect of Sales Growth on Firm Performance through Working Capital Management.

3. METHODS

This study uses a quantitative approach. The population in this study includes 701 companies in Singapore and 957 companies in Indonesia that have been listed on the SGX and IDX from 2019 to 2024. The sample was determined using purposive sampling. Based on the criteria that had been prepared, namely companies that had implemented ESG and were assessed based on Morningstar Sustainalytics, 73 companies in Singapore and 85 companies in Indonesia were obtained as research samples.

Table 1 lists ASEAN countries classified as developed and developing based on the World Bank's 2024 assessment, which refers to each country's economic growth rate [57].

Table 1. Country Income by World Bank

Country	Code	Region	Income Group
Indonesia	IDN	East Asia & Pacific	Upper middle income
Singapore	SGP	East Asia & Pacific	High income
Malaysia	MYS	East Asia & Pacific	Upper middle income
Philippines	PHL	East Asia & Pacific	Lower middle income
Thailand	THA	East Asia & Pacific	Upper middle income
Brunei Darussalam	BRN	East Asia & Pacific	High income
Vietnam	VNM	East Asia & Pacific	Lower middle income
Cambodia	KHM	East Asia & Pacific	Lower middle income
Timor Leste	TLS	East Asia & Pacific	Lower middle income
Lao PDR	LAO	East Asia & Pacific	Lower middle income
Myanmar	MMR	East Asia & Pacific	Lower middle income

For the current fiscal year 2025, low-income economies are defined as countries with a GNP per capita of $1,145 or less, calculated using the World Bank Atlas method; lower-middle-income economies are countries with a GNP per capita between $1,146 and $4,515; upper-middle-income economies are countries with a per capita GNP between $4,516 and $14,005; high-income economies are countries with a per capita GNP of more than $14,005 [58].

Among other ASEAN countries, Singapore and Indonesia are appropriate representatives for comparison between developed and developing countries because both countries are active in the capital market. This is assessed based on the capitalization value of each country in the capital market. In 2024, Indonesia, as a developing country, will rank first in terms of capitalization value, followed by Singapore, which will rank second as a developed country

[6].

Table 2. Capitalization Value

Country	Capitalization Value
Indonesia	Rp11.674.000.000.000.000.000
Singapore	Rp8.691.000.000.000.000.000
Thailand	Rp7.397.000.000.000.000.000
Malaysia	Rp5.774.000.000.000.000.000
Philipines	Rp4.274.000.000.000.000.000
Vietnam	Rp2.857.000.000.000.000.000

The reasons for including Indonesia and Singapore in our sample are: First, these countries consistently demonstrate their activity in capital market activities and significant differences in economic progress with diverse economic structures.

In this study, we apply panel data regression analysis to examine the effects of Leverage, Corporate Governance, and Sales Growth, with Working Capital Management (WCM) as the mediating variable. Firm performance, proxied by Return on Equity (ROE), is used as the dependent variable, and involves the same control variables as described earlier in the sample of developed and developing countries that have adopted ESG practices.

The panel data regression model was chosen because of its ability to control for unobserved company characteristics that are constant over time and potentially correlated with the research variables. By combining cross-sectional data, this model allows for more efficient parameter estimation and higher statistical power of testing. In addition, this study applies the cross-section random effects method and the absolute residual approach to address potential heteroscedasticity issues.

The data analysed is secondary data obtained from annual reports and sustainability reports of basic and chemical industry companies listed on the SGX and IDX, as well as from the official websites of each company. To examine the relationship between variables, path analysis techniques were used to identify the direct and indirect effects of independent variables on dependent variables. The regression model used can be formulated as follows:

$CR = \alpha + \beta 1LEV + \beta 2CG + \beta 3SG + \varepsilon 1$ (1)

$ROE = \alpha + \beta 1CR + \beta 2LEV + \beta 3CG + \beta 4SG + \varepsilon 2$ (2)

Description:

ROE : Financial performance
CR : Working Capital Management
LEV : Leverage
CG : Corporate Governance
β : unstandardized regression coefficient
ε : Error of term or confounding variable

Table 3 provides a description of variables in the following categories: (1) profitability and company performance, (2) WCM size, (3) Leverage size, (4) CG size, (5) Sales Growth size.

Table 3. Variable Measurement

Variable Name	Acronym	Measurement
Return On Equity	ROE	Net Profit/Shareholders' Equity [54]
Current Ratio	CR	Current assets/ current liabilities [16]
Leverage	LEV	Debt to Total Asset [51]
Corporate Governance	CG	CLSA CG scores by market and sector [59]
Sales Growth	SG	Year-over-year change in Sales Revenue [54]

Descriptive statistics are used to assess data collected on debt financing, working capital, capital structure, and financial performance (mean, standard deviation, min, and max). Regression analysis is used to test the proposed relationship.

4. RESULT AND DISCUSSION

4.1. Descriptive Results

After passing the normality test and passing all classical assumption tests in this study, only 41 companies in Singapore and 43 companies in Indonesia passed. Table 4 shows descriptive statistics, including the mean, median, mode, and standard deviation. The purpose is to provide an overview of the characteristics of the objects studied without the intention of generalizing the sample to the population.

Tabel 4. Descriptive Statistics of the Variables

Indicator	Countries									
	Singapore					Indonesia				
	LEV	CG	SG	WCM	FP	LEV	CG	SG	WCM	FP
Mean	0.395	69.708	0.064	1.924	0.059	0.423	61.151	0.076	2.378	0.111
Std.Dev.	0.145	3.397	0.236	2.573	0.045	0.177	4.407	0.330	1.766	0.067
Minimum	0.022	61.500	-0.998	0.045	-0.096	0.081	55.200	-0.998	0.209	-0.090
Maximum	0.838	80.300	1.075	23.638	0.221	0.848	69.500	1.690	10.498	0.383
Observations	245	245	245	245	245	258	258	258	258	258

(Source: Results of data processing with EViews 12)

4.2. Estimation of the Regression Model Coefficient

Based on the results obtained from panel data testing on regression equation 1, the model to be used is the Random Effect Model approach. The results of the first regression analysis for Singapore and Indonesia are as follows:

Table 5. Results of Multiple Linear Regression Analysis 1 Singapura

Variable	Coefficient	Probability
C	9.795009	0.0598
Leverage	-8.026603	0.0000
Corporate Governance	-0.067232	0.3550
Sales Growth	-0.338072	0.4390

(Source: Results of data processing with EViews 12)

$$WCM = 9.795009 - 8.026603Leverage - 0.067232CG - 0.338072SG + \varepsilon$$

Table 6. Results of Multiple Linear Regression Analysis 1 Indonesia

Variable	Coefficient	Probability
C	3.620447	0.1097
Leverage	-6.256571	0.0000
Corporate Governance	0.023974	0.5201
Sales Growth	-0.801844	0.0008

(Source: Results of data processing with EViews 12)

$$WCM = 3.620447 - 6.256571Leverage + 0.023974CG - 0.801844SG + \varepsilon$$

Based on the results of regression equation 1 above, it can be concluded that the constant value for Singapore is 9.795009 and for Indonesia is 3.620447. The constant values obtained indicate that if Leverage, Corporate Governance, and Sales Growth governance are zero (0), then the company's performance will be 9.795009 and 3.620447.

Tables 5 and 6 show a direct effect between the independent variables of Leverage, Corporate Governance, and Sales Growth on the mediating variable of Working Capital Management with a significance level or alpha of 5% or 0.05.

Singapore produced only the independent variable Leverage (p-value 0.0000 < 0.05) which had a direct effect on Working Capital Management. Meanwhile, the variables of Corporate Governance (p-value 0.3550 > 0.05) and Sales Growth (p-value 0.4390 > 0.05) have no direct effect on Working Capital Management.

Indonesia produced independent variables Leverage (p-value 0.0000 < 0.05) and Sales Growth (p-value 0.0008 < 0.05) which had a direct effect on Working Capital Management, while the other variable, Corporate Governance (p-value 0.5201 > 0.05), had no direct effect on Working Capital Management.

Based on the results obtained from panel data testing on regression equation 2, the model to be used is the Random Effect Model approach. The results of the second regression analysis for Singapore and Indonesia are as follows:

Table 7. Results of Multiple Linear Regression Analysis 2 Singapura

Variable	Coefficient	Probability
C	0.269960	0.0147
Leverage	-0.073767	0.0184
Corporate Governance	-0.002581	0.0931
Sales Growth	0.034585	0.0002
WCM	-0.002287	0.0849

(Source: Results of data processing with EViews 12)

FP = 0.269960– 0.073767Leverage – 0.002581CG + 0.034585SG – 0.002287WCM + ε

Table 8. Results of Multiple Linear Regression Analysis 2 Indonesia

Variable	Coefficient	Probability
C	0.083579	0.4063
Leverage	-0.075541	0.0506
Corporate Governance	0.000986	0.5514
Sales Growth	0.109795	0.0000
WCM	-0.004173	0.2013

(Source: Results of data processing with EViews 12)

FP = 0.083579 – 0.075541Leverage + 0.000986CG + 0.10979SG – 0.004173WCM + ε

Based on the results of regression equation 2 above, it can be concluded that the constant value for Singapore is 0.269960 and for Indonesia is 0.083579. The constant values obtained indicate that if Leverage, Corporate Governance, and Sales Growth are zero (0), then company performance will be 0.269960 and 0.083579. Tables 7 and 8 show a direct effect between the independent variables of Leverage, Corporate Governance, Sales Growth, and Working Capital Management on the dependent variable of Firm Performance with a significance level or alpha of 5% or 0.05.

Singapore produced independent variables Leverage (p-value 0.0184 < 0.05) and Sales Growth (p-value 0.0002 < 0.05) which had a direct effect on Firm Performance. Meanwhile, the variables Corporate Governance (p-value 0.0931 > 0.05) and WCM (p-value 0.0849 > 0.05) do not have a direct effect on Firm Performance.

Indonesia produced only the independent variable Sales Growth (p-value 0.000 < 0.05) which had a direct effect on Firm Performance, while the other variables, Leverage (p-value 0.0506 > 0.05), Corporate Governance (p-value 0.5514 > 0.05) and WCM (p-value 0.2013 > 0.05) have no direct effect on Firm Performance.

4.3. Mediation Test (Sobel Test)

Table 9. Sobel Test Result

Country					
Singapore			Indonesia		
X1	X2	X3	X1	X2	X3
0.0891	0.4111	0.4772	0.2042	0.5650	0.2307
Note(s)*** p<.01, ** p<.05, * p<.1					

(Source: Results of data processing with EViews 12)

Table 9 shows the results of the indirect effect between the variables of Leverage, Corporate Governance, and Sales Growth on the dependent variable of Firm Performance through the mediating variable of Working Capital Management. It can be concluded that in both Singapore and Indonesia, the independent variables do not have a significant effect on the dependent variable through the mediating variable.

4.4. Simultaneous Test (F-Test)

Table 10. Simultaneous Test (F-Test) Result

Regression Equation	Country	
	Singapore	Indonesia
	Prob F statistic	*Prob F statistic*
1	0.000001	0.000000
2	0.000088	0.000000

(Source: Results of data processing with EViews 12)

From regression equation model 1 in Tables 5 and 6, it can be concluded that Leverage, Corporate Governance, and Sales Growth, when tested together or simultaneously, have an effect on variable Z, namely Working Capital Management. From regression equation model 2 in tables 7 and 8, it can be concluded that Leverage, Corporate Governance, and Sales Growth, when tested together or simultaneously, have an effect on variable Y, namely Firm Performance.

4.5. Multiple Coefficient of Determination Test (R2)

Table 11. Multiple Determination Coefficient Test Results (R^2)

Regression Equation	Country	
	Singapore	Indonesia
	Adjusted R squared	*Adjusted R squared*
1	0.106787	0.277846
2	0.078919	0.237814

(Source: Results of data processing with EViews 12)

Based on the results of the multiple determination coefficient (R^2) test in Table 9 above, the results of the multiple determination coefficient test for Singapore and Indonesia show that 10.68% and 27.78% of WCM can be explained by Leverage, Corporate Governance, and Sales Growth. Meanwhile, the remaining 89.32% for Singapore and 72.22% for Indonesia are influenced or explained by other variables outside the scope of this study.

Based on the results of the multiple determination coefficient (R^2) test in Table 9 above, the results of the multiple determination coefficient test show that Singapore is 7.89%, Indonesia is 23.78%, so Firm Performance can be explained by Leverage, Corporate Governance, Sales Growth, and WCM. Meanwhile, the remaining 92.11% for Singapore and 76.22% for Indonesia can be influenced or explained by other variables outside the scope of this study.

4.6. Discussion

4.6.1. The Effect of Leverage on Firm Performance

The results show that leverage has a negative effect on firm performance in Singapore, while in Indonesia leverage has no effect but has a negative coefficient. The findings for Singapore indicate that increased use of debt actually suppresses company performance, which is in line with Trade-Off Theory, where bankruptcy costs and financial risk begin to exceed the tax benefits of debt when leverage is at a high level. These results are consistent with the findings of [7] and [8] which show that in mature capital markets, investors tend to punish companies with excessive debt structures. Conversely, the insignificance of leverage in Indonesia can be explained by the characteristics of emerging markets, where companies are still highly dependent on debt financing as their main source of capital, so that variations in leverage are not yet fully reflected in financial or company performance. These findings are in line with [9], who found that the impact of leverage on performance in developing countries is weak and contextual.

4.6.2. The Effect of Corporate Governance on Firm Performance

Corporate governance does not appear to influence firm performance in either Singapore or Indonesia, although the direction of the coefficients differs. In Singapore, the insignificant negative coefficient indicates that relatively mature and standardized governance mechanisms mean that variations in corporate governance scores are no longer a key differentiating factor in company performance. This finding supports the institutional saturation view, as stated by [21], that when governance practices have been widely implemented and become a common standard, their contribution to improving company performance tends to be limited. Meanwhile, in Indonesia, the positive coefficient but no significant effect indicates that corporate governance practices have not been fully and effectively internalized in strategic decision-making, so that their benefits to performance are not yet optimal.

This is in line with Agency Theory, which states that weak institutional enforcement can limit the effectiveness of formal governance.

4.6.3. The Effect of Sales Growth on Firm Performance

Sales growth has been shown to have a positive effect on firm performance in both Singapore and Indonesia. These findings confirm that revenue growth is a key driver of improved company performance, especially for companies that have integrated ESG practices. These results are consistent with the research of [54] and [11], which states that sales growth reflects the success of business strategies and increases investor confidence. Both countries consistently have an influence, indicating that regardless of market maturity, a company's ability to increase sales remains a fundamental signal for financial performance and long-term competitiveness.

4.6.4. The Effect of Working Capital Management on Firm Performance

Working Capital Management (WCM) has a negative coefficient and has no effect on firm performance in either Singapore or Indonesia. This finding contradicts some of the literature which states that working capital efficiency increases profitability [15]; [16]. However, in the context of ESG-based companies, these results indicate that working capital management functions more as a mechanism for operational stability than as a direct driver of financial performance. Long-term ESG investments may cause the benefits of WCM to not be directly reflected in ROE over a relatively short observation period, rendering its impact statistically insignificant.

4.6.5. The Effect of Leverage on Working Capital Management

Leverage has a negative effect on WCM in both Singapore and Indonesia. These findings indicate that increased debt encourages companies to manage working capital more tightly in order to meet short-term obligations. This is in line with Trade-Off Theory and is supported by research by [20], which found that debt repayment pressure forces companies to increase liquidity discipline. The consistency of results in both countries shows that the relationship between leverage and WCM is universal, regardless of market maturity.

4.6.6. The Effect of Corporate Governance on Working Capital Management

Corporate governance does not have a significant effect on WCM in either Singapore or Indonesia. These findings indicate that working capital management is more influenced by operational decisions and short-term financial policies than by formal governance mechanisms. This is consistent with [21], who state that corporate governance plays a more dominant role in long-term strategic decisions than in daily liquidity management.

4.6.7. The Effect of Sales Growth on Working Capital Management

Sales growth has no effect but has a negative coefficient on WCM in Singapore, but there is a negative effect in Indonesia. This difference reflects contrasting institutional conditions. In Indonesia, rapid sales growth tends to increase liquidity pressure, so companies must manage working capital more strictly to avoid overinvestment in current assets, which is in line with [27]. In contrast, in Singapore, an efficient capital market and broader access to funding allow companies to absorb growth without significant pressure on working capital.

4.6.8. The Effect of Leverage on Firm Performance through Working Capital Management

The results of the study indicate that Working Capital Management (WCM) does not mediate the relationship between leverage and firm performance in either Singapore or Indonesia. Although leverage has a significant effect on WCM, changes in working capital management are not strong enough to be passed on to company performance. From the perspective of Trade-Off Theory, debt in ESG-based companies is more directed towards supporting long-term strategic investments than optimizing short-term liquidity. These findings are in line with [17], but differ from [22], who found a mediating role for WCM in non-ESG companies.

4.6.9. The Effect of Corporate Governance on Firm Performance through Working Capital Management

WCM has been shown not to mediate the relationship between corporate governance and firm performance in both countries. These results indicate that governance mechanisms play a greater role in long-term oversight and legitimacy than in operational decisions such as working capital management. Based on Agency Theory, the effectiveness of governance is not necessarily reflected in liquidity efficiency, especially in environments with variations in institutional implementation. These findings are consistent with [21] who emphasize the weak indirect influence of corporate governance on performance through WCM.

4.6.10. The Effect of Sales Growth on Firm Performance through Working Capital Management

The test results show that WCM does not mediate the relationship between sales growth and firm performance in either Singapore or Indonesia. Sales growth improves company performance mainly through revenue expansion

and scale of operations, rather than through working capital efficiency. Within the Resource-Based View framework, sales growth reflects the utilization of strategic resources that have a direct impact on performance. These findings are in line with [18] and show that in ESG based companies, the role of WCM as a mediating channel becomes less dominant.

5. CONCLUSION

Overall, this study investigates the effect of key financial factors leverage, corporate governance, and sales growth on firm performance in companies that have integrated Environmental, Social, and Governance principles, with Working Capital Management as a mediating variable, through a comparison between Indonesia and Singapore as representatives of developing and developed countries in the ASEAN region. Empirical results show that sales growth is the most consistent variable in improving company performance in both countries, indicating that increased revenue remains the main driver of financial performance, regardless of the level of market maturity and the quality of a company's management or institutions.

Conversely, leverage has an impact on firm performance in Singapore, but not in Indonesia, reflecting differences in market characteristics and risk tolerance between developed and developing economies. These findings support the Trade Off Theory, whereby in mature markets, financing costs and bankruptcy risk tend to quickly outweigh the benefits of using debt. Corporate governance does not affect firm performance in either country, indicating that when governance practices have become the norm, particularly in Singapore, their contribution to performance becomes limited, while in Indonesia the effectiveness of formal governance has not been fully internalized in strategic decision making.

The results of the study indicate that Working Capital Management does not have a direct effect on firm performance and does not act as a mediating variable in the relationship between leverage, corporate governance, and sales growth on company performance, both in Indonesia and Singapore. These findings imply that in ESG-based companies, WCM functions more as a mechanism for operational stability than as a strategic channel for increasing short-term profitability. Long-term ESG investments tend to make the benefits of working capital efficiency indirectly reflected in financial-based performance indicators such as ROE.

Overall, this study makes an important contribution to the sustainable finance literature by showing that the role of traditional financial factors and WCM in improving the performance of ESG based companies is contextual and depends on the level of institutional maturity. The practical implications of these findings emphasize that managers and investors should not rely solely on working capital efficiency as a driver of ESG performance, but rather focus their strategies on sustainable sales growth and effective capital structure management. For policymakers, these results underscore the importance of strengthening institutional quality and market mechanisms so that ESG integration can be more effectively translated into improved corporate performance in the ASEAN region.

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