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Financial Ratios and Good Corporate Governance: Assessing Their Impact on Profitability in Indonesia's Telecommunications Industry

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Abstract

Amid rapid technological advancement, Indonesia's telecommunications industry is under growing pressure to sustain profitability amid intensified competition. This research investigates the extent to which financial ratios and Good Corporate Governance (GCG) influence corporate profitability, measured by Return on Assets (ROA). Using panel data from five major telecommunications firms, namely PT Telkom Indonesia Tbk, PT Indosat Ooredoo Tbk, PT XL Axiata Tbk, PT Bali Towerindo Sentra Tbk, and PT Link Net Tbk - over the period 2019–2023, this research employs a quantitative approach with EViews 13 to test the significance of key financial indicators: Debt to Equity Ratio (DER), Current Ratio (CR), and EBITDA Margin (EBITDAM), alongside GCG proxies: Total Board of Directors (BOD) and Audit Fees (AFE). The findings reveal that DER negatively and CR positively influence ROA, while EBITDAM, BOD, and AFE have no statistically significant effect. Notably, this research contributes a novel insight: despite the implementation of GCG practices such as appointing reputable external auditors, including members of the Big Four, and incurring substantial audit fees, these governance mechanisms do not translate into improved profitability in the telecommunications sector. This result contrasts with previous literature that often affirms a positive link between GCG and financial performance. By contextualizing GCG within a capital-intensive, regulation-bound industry, the research offers a critical re-evaluation of governance-performance assumptions and expands the discourse on the strategic role of GCG in sector-specific contexts.

Keywords: *Telecommunications; Financial Ratios; Good Corporate Governance; Profitability; Audit Fees.*

Introduction

According to Indonesian Statistic Centre, Indonesia's Gross Domestic Product (GDP) reached IDR 22.139 trillion in 2024, with GDP per capita standing at IDR 78.6 million (USD 4,960.3). The OECD forecasts GDP growth of 5.1% in 2024 and 5.2% in 2025, with the telecommunications sector playing a vital role in this expansion.

Indonesia's telecommunications industry has experienced rapid growth, supported by an increasing number of mobile phone subscribers - growing at a CAGR of approximately 3.8% - and driven by declining mobile and data costs alongside expanding 4G LTE networks (PwC Indonesia, 2023). In 2022, the information and communication sector contributed 4.15% to the national GDP (BRIN), and by 2023, this sector added IDR 883.63 trillion, marking an 8.72% increase from 2022. The Ministry of Finance highlights this sector as a primary engine of economic growth, with a 9.3% growth rate attributed to digital transformation and internet penetration.

Mobile phone users reached 361.31 million in 2023, and internet usage stood at 79.5% of the population, underscoring increasing reliance on digital connectivity. The sector comprises several segments: cellular operators (e.g., Telkomsel, Indosat, XL Axiata), broadband and cable

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TV providers (e.g., Link Net), and tower infrastructure firms (e.g., Bali Towerindo).

In this dynamic and competitive landscape, companies must balance operational excellence with sound financial and governance practices. Profitability becomes crucial not only for sustaining operations and satisfying stakeholders, but also for withstanding economic pressures such as inflation, technological disruption, and regulatory changes (Batrancea, 2021).

Research Problem:
Despite sectoral growth, it remains unclear how internal financial indicators and good corporate governance (GCG) practices influence firm profitability. Therefore, this research aims to investigate the extent to which financial ratios and GCG implementation affect the financial performance of Indonesian telecommunications firms.

Research Purpose and Questions
This research aims to analyse the impact of financial ratios and good corporate governance (GCG) on corporate profitability within Indonesia's telecommunications sector, using Return on Assets (ROA) as the profitability indicator. The financial ratios considered in this research include the Debt-to-Equity Ratio (DER), Current Ratio (CR), and EBITDA Margin. Meanwhile, GCG is represented by two variables: the total number of members on the Board of Directors (BOD) and audit fee expenditure. To achieve the research objective, the investigation is structured into two analytical models:

Model 1: Financial Performance Focus
1. Does the Debt-to-Equity Ratio (DER) significantly influence ROA?
2. Does the Current Ratio (CR) significantly influence ROA?
3. Does the EBITDA Margin significantly influence ROA?

Model 2: Good Corporate Governance Focus
4. Does the total number of Board of Directors (BOD) significantly influence ROA?
5. Does the audit fee significantly influence ROA?

By addressing these research questions, the research seeks to provide empirical insights into how financial structure and governance mechanisms affect firm profitability in a dynamic and competitive industry landscape.

Hypotheses
This research proposes the following hypotheses to examine the impact of financial ratios and good corporate governance indicators on firm profitability, as measured by Return on Assets (ROA):
H1: The Debt-to-Equity Ratio (DER) has a significant effect on ROA.
H2: The Current Ratio (CR) has a significant effect on ROA.
H3: The EBITDA Margin (EBITDAM) has a significant effect on ROA.
H4: The Total Number of Board of Directors (BOD) has a significant effect on ROA.
H5: Audit Fee (AFE) has a significant effect on ROA.

Literature Review

Legal Foundation

The legal basis for this research is Government Regulation No. 52 of 2000 concerning Telecommunications Provision. Article 3 of this regulation stipulates that telecommunications in Indonesia encompass the development of telecommunications networks, services, and special telecommunications. Furthermore, Article 9 categorizes telecommunications network operations into two main types: fixed broadband (both cable and wireless) and mobile broadband (cellular).

Grand Theory: Agency Theory

The fundamental theoretical framework underpinning this research is Agency Theory. Like many other industries, the telecommunications sector is characterized by complex interactions among human actors, each with distinct interests. These divergent interests can potentially lead to conflicts, a central concern addressed by agency theory.

Agency theory, as conceptualized by Jensen and Meckling (1976), explains organizational behaviour through the principal-agent relationship, in which principals (e.g., shareholders) delegate authority to agents (e.g., managers). These relationships often exist within hierarchical structures where principals attempt to control and monitor agents to ensure alignment with their goals. This dynamic necessitates a comprehensive understanding of agent behaviour and motivations.

A critical issue in agency relationships is the separation of ownership and control, which frequently leads to agency problems and risk-sharing conflicts when the interests of principals and agents are not perfectly aligned. One of the main drivers of agency problems is information asymmetry, where agents typically hold superior or more detailed information than principals. This imbalance results in agency costs (Tekin & Polat, 2020).

Jensen and Meckling (1976) outline three primary forms of agency costs:

- Monitoring costs, incurred by principals to oversee agent behaviour.
- Bonding costs, borne by agents to convince principals of their trustworthiness.
- Residual losses, which result from persistent conflicts of interest despite monitoring and bonding efforts.

To mitigate these costs, effective corporate governance mechanisms are essential. These mechanisms aim to align the interests of agents and principals and reduce the inefficiencies that arise from conflicts (Zogning, 2017). In agency theory, principals seek to monitor agent performance through contracts and incentives, while agents strive to demonstrate value and secure appropriate compensation. A well-structured capital framework can lead to increased efficiency and profitability. However, residual losses are often inevitable due to the inherent divergence of interests (Tekin & Polat, 2020). In this context, Good Corporate Governance (GCG) is viewed as a strategic approach to resolving interest conflicts, consistent with agency theory. Consequently, this research investigates GCG implementation in the Indonesian telecommunications industry.

Good Corporate Governance

Corporate governance refers to the set of principles, policies, and mechanisms by which companies are directed and controlled. It provides a framework to align the interests of

shareholders (principals) and management (agents), primarily to mitigate potential conflicts of interest (Liem, 2016; Sunarto et al., 2021). Robust governance structures promote managerial accountability and ensure strategic alignment, thereby reducing agency problems. Sound corporate governance has been associated with improved decision-making processes, enhanced operational efficiency, and greater investor confidence (Heo, 2018; Azmy et al., 2019).

Risk management within the governance framework encompasses both upside and downside risks. While upside risk captures the extent to which outcomes exceed expectations, downside risk pertains to losses relative to performance benchmarks. Effective governance mechanisms are designed to minimize downside risk while sustaining long-term value creation (Ali et al., 2022).

This research employs Return on Assets (ROA) as the dependent variable, while the dependent variables for Good Corporate Governance (GCG) are outlined below:

1. Total Board of Directors (X4)

The Board of Directors (BOD) plays a central role in supervising corporate strategy, appointing executive leadership, and shaping organizational policies. Its structure significantly influences corporate performance and governance effectiveness (Kanakriyah, 2021). An optimal board typically comprises 8 to 12 members, with at least 50% being independent directors. Leading governance frameworks also recommend the appointment of a senior independent director to chair critical committees (Cronin et al., 2012, as cited in Liem, 2016). In Indonesia, public companies are legally required to have at least one independent commissioner, with the Indonesia Stock Exchange (IDX) stipulating that 30% of the board must be independent. The Indonesian corporate system adopts a two-tier board structure: commissioners serve an oversight role, while directors are responsible for strategic and operational execution—thus helping to avoid conflicts of interest (Wicaksono & Wahyudi, 2022). Yermack (1996) highlighted that smaller boards are often more effective due to increased engagement and reduced agency conflict. In contrast, larger boards may bring in external expertise but are also subject to more complex dynamics and potential coordination challenges.

2. Audit Fee (X5)

Audit fees represent the compensation paid to public accounting firms for auditing a company's financial statements. These fees vary depending on the complexity of the audit, the assessed level of risk, auditor expertise, and firm-specific pricing structures (Rusmanto & Waworuntu, 2015; Dewita & NR, 2023). Higher perceived audit risks or intricate financial operations generally require a more extensive audit process, leading to increased fees (Moutinho et al., 2012). The fundamental purpose of an audit is to provide reasonable assurance that financial statements are free from material misstatements, whether due to error or fraud. The reliability of audited financial reports depends heavily on the independence, technical competence, and methodological integrity of the auditor (Sapiri, 2024).

Financial Performance and Profitability in Indonesia's Telecommunication Industry

Beyond Good Corporate Governance (GCG), this research explores additional factors influencing profitability within Indonesia's telecommunication sector. A company's financial health reflects its ability to generate sustainable earnings, allocate resources efficiently, and meet its financial obligations. Financial ratios are widely used tools for performance evaluation due to their clarity, comparability, and analytical rigor. The selection and application of these ratios often depend on the analytical objective, temporal scope, and data availability (Myšková & Hájek, 2017).

Financial performance encapsulates how effectively an enterprise utilizes its assets and resources to drive profitability. It represents the outcome of strategic financial decisions, especially those related to capital structuring and expenditure management, and is commonly assessed through key indicators such as profitability, liquidity, and capital adequacy. At the core of this assessment lies net income, which reflects the firm's revenue-expense equilibrium. Moreover, financial performance signifies compliance with standardized accounting practices, as evidenced through the interpretation of financial statements (Ullah et al., 2020; Cahyadi, 2021; Larasanti & Purwanto, 2022). As Seow (2023) highlights, financial analysis provides essential insights into managerial effectiveness in optimizing corporate resources to enhance earnings and value creation.

In this research, Return on Assets (ROA) is utilized as the dependent variable, while the selected dependent variables - expressed through financial ratios - include the following:

1. Debt-to-Equity Ratio (X1)

The Debt-to-Equity Ratio (DER) serves as a fundamental measure of a firm's solvency, comparing total liabilities to shareholders' equity. It illustrates the extent to which a company relies on external debt versus internal equity financing (Faujia & Nurulrahmatia, 2024). While prudent leverage can amplify shareholder returns, excessive debt exposure may undermine profitability due to elevated interest costs and heightened financial risk (Hertina et al., 2021). A high DER typically signals increased financial vulnerability, whereas a lower DER reflects a stronger equity position and is often associated with improved financial resilience and performance (Hantono, 2018; Štefko et al., 2021).

2. Current Ratio (X2)

The Current Ratio is a key liquidity indicator that assesses a firm's capacity to meet short-term obligations using its current assets. It is computed by dividing current assets by current liabilities. A higher ratio indicates a solid liquidity buffer, suggesting that the firm can comfortably meet its short-term financial commitments using cash, receivables, and inventory (Akenga, 2017). However, an excessively high current ratio may signal inefficient asset utilization or overstocking, while a lower ratio could point to liquidity challenges (Rachman et al., 2023).

3. EBITDA Margin (X3)

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) provides a clear picture of a firm's core operational profitability by excluding non-operational and non-cash expenses. The EBITDA margin - calculated by dividing EBITDA by total revenue - serves as a standardized metric of operational efficiency and financial performance (Mihaela, 2023). This ratio is frequently used to benchmark firms within an industry and is instrumental in valuation practices, particularly when applying market-based multiples. A higher EBITDA margin indicates superior cost management and operational productivity, thereby enhancing a firm's attractiveness to investors and stakeholders (Sam et al., 2017).

Theoretical Framework

This research adopts a dual-model framework to examine the effect of internal financial and governance variables on firm profitability, measured by Return on Assets (ROA). The models are structured according to the classification of the independent variables - financial ratios and corporate governance indicators - to assess their respective influence on profitability.

Model 1: Financial Ratios and Profitability
Model 1 conceptualizes the relationship between key financial performance indicators and corporate profitability. The independent variables in this model include the Debt-to-Equity Ratio (DER), Current Ratio (CR), and EBITDA Margin (EBITDAM).

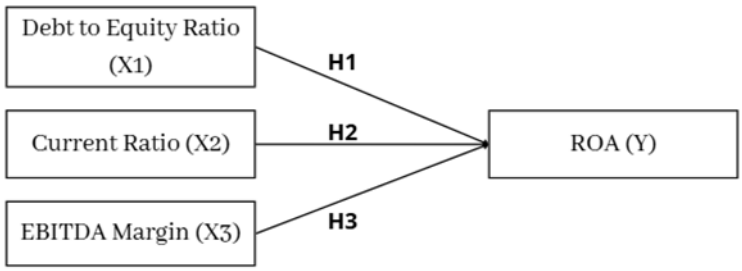

Figure 1.
Model 1 – Influence of Financial Ratios on ROA

These ratios are widely recognized for reflecting a firm's capital structure, liquidity, and operational efficiency. The model investigates how these financial metrics contribute to or hinder profitability, as measured by ROA.

Model 2: Good Corporate Governance and Profitability
Model 2 focuses on the governance dimension by analysing the effect of good corporate governance (GCG) practices on firm profitability. GCG is represented by two proxies: the total number of members on the Board of Directors (BOD) and the Audit Fee Expenditure (AFE). These variables are used to assess the effectiveness of oversight and the investment in external monitoring mechanisms, and how they correlate with ROA.

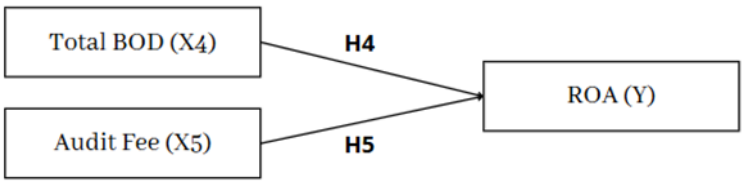

Figure 2.
Model 2 – Influence of Good Corporate Governance on ROA

Together, these two models provide a comprehensive framework for understanding the extent to which financial structure and governance mechanisms influence corporate profitability in the context of Indonesia's rapidly growing telecommunications sector.

Research Methodology

This research adopts a quantitative research approach, which entails the systematic collection and analysis of numerical data to address the formulated scientific questions. This method enables data summarization, pattern identification, hypothesis testing, causal relationship evaluation, and generalization of findings from sample data to a broader population (Rana et al., 2021; Ghanad, 2023). The quantitative framework facilitates the empirical testing of the hypotheses based on measurable variables.

Sampling Strategy

The target population comprises Indonesian telecommunications companies. A purposive sampling technique was employed, selecting firms that meet specific criteria:

- Operating within the telecommunications sector
- Publishing complete annual reports for the period 2019 to 2023 on their official websites
- Providing detailed financial and governance data including Debt-to-Equity Ratio (DER), Current Ratio (CR), EBITDA Margin (EBITDAM), Board of Directors (BOD) size, Audit Fee (AFE), and Return on Assets (ROA).

Based on these criteria, five companies were selected as the research sample:

1. PT Telkom Indonesia Tbk
2. PT Indosat Tbk
3. PT XL Axiata Tbk
4. PT Link Net Tbk
5. PT Bali Towerindo Sentra Tbk

The research utilizes panel data combining time series (2019–2023) and cross-sectional data (five companies), resulting in 25 observations for analysis.

Variables and Operational Definitions

This research analyses panel data using two distinct models processed independently with EViews13 software. To determine the most appropriate panel data model, namely: Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM), the Chow, Hausman, and Lagrange Multiplier (LM) tests will be applied. The final model selection depends on the outcomes of these diagnostic tests. Simultaneous regression analyses will be conducted incorporating all independent variables, conditional on the classical assumptions being satisfied without significant violations. The operational definitions of variables are as follows:

- *Debt-to-Equity Ratio (DER):* Measures the proportion of company financing derived from debt relative to equity, indicating solvency and financial leverage (& Nurulrahmatia, 2024). Calculated as total liabilities divided by total equity, sourced from annual reports.
- *Current Ratio (CR):* A liquidity ratio indicating a company's ability to meet short-term obligations; a higher ratio suggests stronger liquidity (Akenga, 2017). Calculated as current assets divided by current liabilities.
- *EBITDA Margin (EBITDAM):* Reflects operational profitability by expressing EBITDA as a percentage of revenue (Mihaela, 2023).
- *Total Board of Directors (BOD):* Represents the size of the board responsible for strategic decision-making and company oversight (Kanakriyah, 2021).
- *Audit Fee (AFE):* The compensation paid to external auditors for audit services rendered on the financial statements (Rusmanto & Waworuntu, 2015).
- *Return on Assets (ROA):* An indicator of overall profitability, measuring net income generated per unit of total assets (Minh et al., 2019).

Data Collection and Analysis

Secondary data were obtained from publicly accessible annual reports available on the official websites of the sampled companies for the years 2019 through 2023. Additional data were sourced from credible official repositories to supplement the analysis.

This research employs panel data regression analysis, which integrates time series and cross-sectional data (Fathinah & Setiawan, 2020). Multiple regression models are applied to examine the influence of financial ratios and corporate governance variables on profitability. Descriptive analysis is conducted to summarize and describe data characteristics, following Sugiyono's (2014) definition as cited in Kusuma and Mahardi (2021). The descriptive approach provides an overview of the dataset without drawing broad generalizations beyond the sample.

Hypothesis Analysis and Discussions

Financial Ratios and Their Impact on ROA

This model uses three independent variables: Debt-to-Equity Ratio (DER), Current Ratio (CR), and EBITDA Margin (EBITDAM), measured over a five-year period for each company.

Multiple Regression Analysis

The t-test is employed to assess the individual effect of each independent variable on the dependent variable, determined by the probability value of the t-statistic at a significance level of $\alpha = 0.05$ (Purwanto & Agustin, 2017).

Table 1.
Multiple Regression Analysis Results for Financial Ratios

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.006436	0.046965	0.137035	0.8923
DER	-0.059364	0.021276	-2.790193	0.0110
CR	0.107536	0.045617	2.357359	0.0282
EBITDAM	0.069212	0.085992	0.804858	0.4299

Source: Processed data using Eviews13

Regression Equation:

$$Y = 0.00643582202833 - 0.0593638557492*X1 + 0.107535865388*X2 + 0.0692115800893*X3$$

Where:
Y = Return on Assets (ROA)
X_1 = Debt-to-Equity Ratio (DER)
X_2 = Current Ratio (CR)
X_3 = EBITDA Margin (EBITDAM)

Hypothesis Testing

- *H1: Debt-to-Equity Ratio (DER) significantly affects ROA (Accepted)*
  The DER variable (X_1) shows a t-value of -2.790 and a p-value of 0.011 < 0.05, indicating a significant negative partial effect on ROA.
- *H2: Current Ratio (CR) significantly affects ROA (Accepted)*
  The CR variable (X_2) has a t-value of 2.357 and a p-value of 0.028 < 0.05, confirming a significant positive partial effect on ROA.
- *H3: EBITDA Margin (EBITDAM) significantly affects ROA (Rejected)*
  The EBITDAM variable (X_3) yields a t-value of 0.805 and p-value of 0.430 > 0.05, suggesting no significant partial impact on ROA.

Interpretation of Coefficients

The coefficient for DER (-0.0593) implies that a 1% increase in DER, holding other factors constant, leads to a 5.93% decrease in ROA. Conversely, a 1% reduction in DER correlates with a 5.93% increase in ROA. This indicates that higher leverage negatively influences company profitability, as greater debt proportion tends to diminish returns. The CR coefficient (0.1075) suggests that a 1% increase in liquidity, as measured by CR, results in a 10.75% increase in ROA, ceteris paribus. Conversely, a 1% decrease in CR lowers ROA by the same magnitude. This underscores the positive role of liquidity in enhancing profitability by providing firms with operational and financial flexibility. Although EBITDAM's coefficient (0.0692) is positive - implying that improved operational efficiency should increase ROA - its effect is statistically insignificant, indicating insufficient evidence to confirm a reliable impact. Among the financial ratios studied, CR exhibits the strongest influence on ROA, highlighting liquidity as a critical determinant of profitability, independent of debt levels or operational margins. The F-test results ($F = 6.66$, $p = 0.0025 < 0.05$; Table 4.3) indicate that DER, CR, and EBITDAM jointly have a statistically significant effect on ROA.

Coefficient of Determination

The R-squared statistic measures the proportion of variation in ROA explained by the model. Since R-squared can artificially increase with added variables regardless of relevance, the Adjusted R-squared value, which accounts for sample size and number of predictors, is preferred for model evaluation (Karch, 2020).

Table 2.
Coefficient of Determination for Financial Ratio Model

Statistic	Value
R-squared	0.4876
Adjusted R-squared	0.4144
F-statistic 6.6609	
Prob(F-statistic)	0.0025

Source: Processed data using Eviews13

The model explains 48.76% of the variance in ROA (R^2), with the Adjusted R^2 indicating that 41.44% of the variability is attributable to DER, CR, and EBITDAM collectively. The remaining 58.56% is due to factors outside the model, suggesting moderate explanatory power with room for other influences.

Multicollinearity Test

The model's independent variables were assessed for multicollinearity, which occurs when predictors are highly correlated, undermining statistical independence (Larasati & Purwanto, 2022).

Table 3.
Correlation Matrix

	DER (X1)	**CR (X2)**	**EBITDAM (X3)**
DER (X1)	1.000000	-0.258193	0.143839
CR (X2)	-0.258193	1.000000	0.222042
EBITDAM (X3)	0.143839	0.222042	1.000000

Source: Processed data using Eviews13

Since all correlation coefficients are below 0.85, there is no indication of problematic multicollinearity in this model.

Corporate Governance and Its Effect on ROA

This model incorporates Total Board of Directors (BOD) and Audit Fee (AFE) as independent variables, measured over a five-year timeframe.

Multiple Regression Analysis

The t-test evaluates the partial effect of each independent variable on ROA at a significance threshold of $\alpha = 0.05$ (Purwanto & Agustin, 2017).

Table 4.
Multiple Regression Analysis Results for Corporate Governance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.042931	0.045523	-0.943060	0.3559
BOD	0.016476	0.010350	1.591896	0.1257
AFE	1.13e-07	7.68e-07	0.146548	0.8848

Source: Processed data using Eviews13

Regression Equation:

$$Y = -0.0429309795344 + 0.0164758220456*X4 + 1.12572083743e-07*X5$$

Where:
Y = Return on Assets (ROA)
X_4 = Total Board of Directors (BOD)
X_5 = Audit Fee (AFE)

Hypothesis Testing

- *H4: Total BOD (X_4) significantly affects ROA (Rejected)*
  The BOD variable shows a t-value of 1.592 and p-value of 0.126 > 0.05, indicating no significant partial effect on ROA.
- *H5: Audit Fee (X_5) significantly affects ROA (Rejected)*
  The AFE variable has a t-value of 0.147 and p-value of 0.885 > 0.05, showing no significant partial influence on ROA.

Interpretation of Coefficients

The coefficient for Board of Directors (BOD), valued at 0.0165, indicates that each additional board member is associated with a 0.0165 unit increase in Return on Assets (ROA), assuming all other factors remain constant. However, this relationship is not statistically significant, suggesting a negligible individual impact on firm profitability. Similarly, the coefficient for Audit Fee Expenditure (AFE), measured at 1.13e-07, suggests a marginal positive influence on ROA for every one million rupiah increase in audit fees. Yet, like BOD, this effect is statistically insignificant and practically minimal.

Although neither BOD nor AFE significantly influences ROA when considered individually, their combined effect is statistically significant, as evidenced by the F-test results ($F = 6.53$, $p = 0.0059 < 0.05$; see Table 4.5). This finding suggests a joint influence or interaction effect of these governance mechanisms on firm performance, underscoring the importance of integrated governance practices.

Both BOD and AFE remain integral to corporate sustainability. The board of directors serves a strategic role, particularly during periods of uncertainty or crisis, by facilitating effective risk management and ensuring operational resilience. Concurrently, audit activities enhance corporate transparency and investor trust, with audit fees potentially reflecting the scope, complexity, and associated risks of the auditing process.

This research highlights a novel insight: the implementation of Good Corporate Governance (GCG), represented by BOD and AFE, does not individually influence profitability in a statistically significant manner. This challenges conventional assumptions and suggests that GCG mechanisms may exert influence primarily through collective governance structures rather than isolated measures.

Coefficient of Determination

The model accounts for 37.26% of the variation in ROA, while the Adjusted R^2 indicates that 31.63% of the variability is explained by BOD and AFE.

Table 5.
Coefficient of Determination for Corporate Governance Model

Regression Statistics	
R-squared	0.372642
Adjusted R-squared	0.315610
F-statistic	6.533855
Prob(F-statistic)	0.005925

Source: Processed data using Eviews13

This leaves 68.37% influenced by factors outside the model, indicating that other governance or external variables may be more impactful.

Conclusions

Based on the findings from the data analysis, the research draws the following conclusions:

- Debt-to-Equity Ratio (DER) (X1) has a significant negative influence on Return on Assets (ROA). This indicates that a higher level of company debt tends to decrease profitability, suggesting that excessive leverage may hinder financial performance.
- Current Ratio (CR) (X2) has a significant positive influence on ROA. This implies that stronger liquidity - reflected in a company's ability to meet short-term obligations - positively contributes to profitability.
- EBITDA Margin (EBITDAM) (X3) does not have a statistically significant effect on ROA. Although the coefficient is positive, the lack of significance means no firm conclusion can be drawn regarding its impact on profitability.
- Nevertheless, DER, CR, and EBITDAM collectively have a significant influence on ROA, highlighting that the company's profitability is jointly affected by its funding structure, liquidity, and operational efficiency.

The Adjusted R-squared value of 0.414 (41.44%) indicates that the financial ratios (DER, CR, and EBITDAM) explain 41.44% of the variability in ROA.

Meanwhile, Board of Directors (BOD) (X4) has a positive but statistically insignificant effect on ROA. While the direction of influence is favourable, it lacks statistical support. Audit Fee Expenditure (AFE) (X5) also has a positive but statistically insignificant effect on ROA. This

suggests that although audit fees may represent governance strength, their direct impact on profitability is limited.

Despite the lack of individual significance, both BOD and AFE play functional roles in corporate governance. The board contributes to strategic decision-making, especially during crises, while audit activities reinforce transparency and trust - critical components for long-term resilience. When examined simultaneously, BOD and AFE have a statistically significant effect on ROA. This underscores that the combined governance structure contributes meaningfully to firm performance, even if their individual effects are limited.

The Adjusted R-squared value of 0.316 (31.56%) suggests that BOD and AFE collectively explain 31.56% of the variation in ROA. The analysis revealed the presence of multicollinearity between BOD and AFE, with a correlation value of 0.87, which exceeds the acceptable threshold (0.85). This strong correlation may reduce the reliability of the individual coefficient estimates in the regression model.

As this research successfully addressed all the proposed research questions through hypothesis testing, it thereby achieves its overarching objective that to analyse the influence of financial ratios and good corporate governance (GCG) on corporate profitability in Indonesia's telecommunications sector, with Return on Assets (ROA) serving as the key performance indicator.

Furthermore, this research extends the discourse on Good Corporate Governance (GCG) by focusing on its application within Indonesia's telecommunications industry. The novelty of this research lies in its finding that, despite the engagement of highly reputable external auditors, including members of the Big Four, and the associated high audit fees, the implementation of GCG does not significantly impact corporate profitability. This outcome contrasts with previous studies that suggested a strong positive relationship between GCG practices and profitability, thereby contributing a new perspective to the existing body of literature.

Recommendations

Based on the research findings, the following suggestions are offered:

- *For the Academic Community*

This research has limitations in fully capturing the effects of financial ratios and corporate governance on firm profitability. Future research is encouraged to incorporate additional variables or use alternative indicators of financial performance and governance. Broader data sets, longitudinal studies, and sectoral comparisons could also provide more robust and generalizable insights.

- *For Telecommunications Companies*

Telecommunications firms should consider optimizing the composition and competencies of their board members, ensuring they contribute strategically to firm performance. Moreover, audit expenditures should be directed toward improving governance quality and internal control systems, thereby enhancing transparency and accountability.

Although the direct impact of BOD and AFE on profitability may appear minimal, their combined governance effect is significant and can positively influence financial outcomes. Additionally, firms are advised to account for external factors such as technological innovation, customer satisfaction, network efficiency, regulatory developments, and market competition, which are also vital determinants of long-term profitability.

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