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Strategic governance and risk management: Unlocking higher stock returns

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Abstract: This study investigates the role of corporate governance in the relationship between financial performance and stock returns, while also exploring the mediating role of business risk in shaping financial outcomes. The analysis uses data from 62 manufacturing companies listed on the Indonesian Stock Exchange from 2021 to 2024, comprising 248 data points. Structural Equation Modeling (SEM) was employed using WARP PLS for the analysis. The findings reveal that business risk significantly mediates the relationship between internal factors, financial performance, and stock returns. Furthermore, financial performance plays a critical mediating role, with significant path coefficients highlighting its influence on internal factors, external factors, and business risk. In contrast, corporate governance was found to have no significant impact on the relationship between financial performance and stock returns. These findings can provide valuable insights for the Financial Services Authority in formulating regulations to protect investors. They can serve as a reference for assessing the impacts of the COVID-19 pandemic on the manufacturing industry, aiding in strategic recovery efforts. This study offers a novel dual-mediation framework that integrates business risk and financial performance in assessing the impact of internal and external factors on stock returns within the Indonesian manufacturing sector during the post-COVID era. Unlike prior research, it reveals the non-significant role of corporate governance in moderating financial outcomes, challenging established theories. Furthermore, the study provides a methodological advancement by utilizing WARP PLS to uncover complex, non-linear relationships. It delivers context-specific insights crucial for policymakers and investors in emerging markets.

Keywords: *Business risk, External factors, Good corporate governance, Internal factors, Stock returns.*

1. Introduction

Investors aim to generate profits through various investment strategies, with the most common approach being acquiring company shares. Generally, increasing firm value leads to higher shareholder returns, making effective management crucial in enhancing company value. Managers are responsible for optimising short-term profits and fostering long-term growth, influencing shareholder returns through operational decisions and strategic initiatives. Financial ratios are essential for assessing company performance, providing insights into liquidity, solvency, profitability, and asset utilisation. These metrics are vital for investors, creditors, and managers, informing their investment and funding decisions. However, company performance is also affected by external economic factors such as currency fluctuations, inflation, and per capita income, all of which can significantly impact financial outcomes.

Furthermore, managerial behaviour and adherence to corporate governance principles are critical in shaping company performance and value. Companies must navigate both systemic risks, which affect all firms, and non-systemic risks, arising from internal operations. Effectively managing these risks is essential for maintaining investor confidence and ensuring positive stock returns. The price of shares reflects investor expectations and perceptions of the company, and a favourable view typically drives the share price upward. Consequently, stock price is a key indicator of firm value [1]. Firm value represents how investors perceive a company, directly correlating with its market performance and stock price [2].

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This approach ensures that the results capture typical business conditions, offering valuable insights into the relationship between company performance and shareholder returns within a stable economic context. This study seeks to examine the relationships between internal and external factors, risk, and company performance on stock returns, while also exploring the mediating roles of risk and performance and the moderating influence of good corporate governance (GCG).

2. Literature Review and Hypothesis

2.1. Signalling Theory

The signalling theory, popularised by Michael Spence in 2002 in his work Signalling in Retrospect and the Informational Structure of Markets [3] is based on George Akerlof's 1970 article The Market for Lemons [4]. Akerlof highlighted the information asymmetry between sellers and buyers, particularly in the used car market. He found that when buyers lack sufficient information about the quality of a product, they tend to value it uniformly, regardless of its true quality. As a result, high-quality products are undervalued, and the seller suffers a loss. This leads to a phenomenon known as adverse selection. Adverse selection can be mitigated by signalling, where the seller conveys information about the quality of the product to the buyer.

2.2. Internal and External Factors, Financial Performance, and Stock Returns

Companies aim to maximise profits and increase shareholder value by utilising their resources effectively. The market value of a company is shaped by investors' perceptions, which are often reflected in the company's stock price [2]. A company that performs well, is efficiently managed, and is competitive increases its value and contributes to shareholder prosperity [5]. Stock returns represent the returns an investor expects from their investment, and they consist of two main components: yield (dividends) and capital gains (changes in stock prices) [6]. Financial performance, which reflects a company's overall health and success, plays a significant role in stock returns [7]. Additionally, economic factors such as inflation, exchange rates, and per capita income influence company performance and stock returns [8]. Both financial ratios and macroeconomic factors can offer insights into a company's health, influencing investor confidence and stock price movements.

Hypothesis 1: Internal factors affect business risk.

Internal factors, such as resource management, operational efficiency, and strategic decisions, directly impact a company's exposure to business risk [9]. Research by Dang and Nguyen [10] suggests that strong internal governance can mitigate stock price declines by improving risk management. Similarly, Karim, et al. [11] argue that internal risk committees are vital in managing a company's overall risk exposure.

Hypothesis 2: External factors affect business risk.

External factors such as inflation, exchange rates, and macroeconomic conditions introduce systematic risks that are outside the control of individual companies [12]. According to Wang, et al. [13] external governance factors like regulatory oversight can help moderate the risks posed by these external factors. Bai, et al. [14] further highlight how external influences, including environmental sustainability, affect corporate risk.

Hypothesis 3: Internal factors affect company performance.

Efficient resource use and competent management are key determinants of a company's performance [5]. Companies with strong internal governance tend to perform better financially and achieve higher profitability, improving their financial outcomes [15, 16].

Hypothesis 4: External factors affect company performance.

Macroeconomic conditions like inflation, income levels, and regulatory changes significantly influence company performance Ruhomaun, et al. [7]. Amri, et al. [17] suggest that government policies and tax regulations are crucial in shaping a company's financial performance. Napitupulu, et al. [18] demonstrate how market conditions affect firm performance.

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2.3. Business Risk, Internal and External Factors, Financial Performance, and Stock Returns

Companies are constantly exposed to risks, which can stem from uncertainties related to operating profits and capital requirements Brahma, et al. [9]. Karina, et al. [19] observed that firms with high fixed costs are more conservative in their financial policies. For example, manufacturing companies rely more on advanced technologies and machinery, requiring significant capital investment. Internal and external factors influence a company's stock returns, as proper management of business risks can attract investors. Low-risk companies are more likely to attract investment, thus improving stock returns.

Hypothesis 5: Business risk affects company performance.

High business risks, including market volatility and fixed costs, can undermine company performance [9]. Conversely, companies that manage risks effectively experience improved operational efficiency and higher profitability [19, 20].

Hypothesis 6: Business risk mediates the effect of internal factors on performance.

Internal factors, such as efficient management and resource use, influence business risks and company performance. Companies with strong risk management systems can better minimise the negative impacts of inefficiencies on their performance [9].

Hypothesis 7: Business risk mediates the effect of external factors on performance.

External risks, such as economic volatility, mediate the relationship between external factors and company performance. Companies with effective risk management strategies can mitigate the adverse effects of external factors, enhancing their overall performance [12].

Hypothesis 8: Internal factors affect stock returns.

Effective governance and operational efficiency enhance a company's performance, increasing investor confidence and higher stock returns [21, 22]. Board diversity, for example, can influence risk-taking behaviour, subsequently affecting stock returns [23].

Hypothesis 9: External factors affect stock returns.

Economic conditions, such as inflation and currency fluctuations, directly impact stock returns by influencing a company's performance and risk exposure Almaqtari, et al. [12]. Huang, et al. [24] demonstrated that digital transformation influences idiosyncratic risk, which, in turn, affects stock returns.

Hypothesis 10: Company performance affects stock returns.

Strong financial performance, driven by profitability and effective asset utilisation, is directly linked to higher stock returns. Companies that perform well attract more investors, boosting their stock prices [21, 22].

2.4. Corporate Governance, Internal and External Factors, Financial Performance, and Stock Returns

Good corporate governance (GCG) mechanisms can help reduce agency costs by ensuring better alignment of interests between shareholders and management. In Indonesia, the two-tier board system is commonly used, where the CEO also serves as a member of the board of commissioners. This system has its advantages, such as streamlined decision-making, but also has potential drawbacks, such as reduced independence of the supervisory board and possible conflicts of interest.

Hypothesis 11: Company performance mediates the effect of internal factors on stock returns.

Internal factors such as governance and management efficiency affect stock returns through their impact on company performance. Companies with strong internal management can achieve better financial results, increasing stock returns [25].

Hypothesis 12: Company performance mediates the effect of external factors on stock returns.

External factors, such as economic conditions and regulatory changes, influence stock returns and company performance. Companies that effectively manage external challenges tend to perform better financially, thus increasing stock returns [7, 12].

Hypothesis 13: Company performance mediates the effect of business risk on stock returns.

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The management of business risks influences company performance, which in turn affects stock returns. Companies that effectively manage risks tend to maintain strong performance, which boosts investor confidence and stock returns [20].

Hypothesis 14: Company performance mediates the effect of internal factors and business risk on stock returns. Internal factors combined with effective risk management influence stock returns through their impact on company performance. Companies that manage internal inefficiencies and business risks effectively achieve higher performance and stock returns [9].

Hypothesis 15: Company performance mediates the effect of external factors and business risk on stock returns. External factors and associated risks affect stock returns through their impact on company performance. Companies that effectively adapt to external pressures and manage risks tend to deliver higher stock returns [7, 12].

Hypothesis 16: Corporate governance moderates the effect of performance mediation on the influence of internal factors, external factors, and business risk on stock returns.

Good corporate governance (GCG) strengthens the relationship between internal and external factors, business risks, company performance, and stock returns by ensuring transparency, accountability, and investor confidence [1]. GCG reforms improve risk transparency and performance, enhancing the impact of both internal and external factors on stock returns [26, 27].

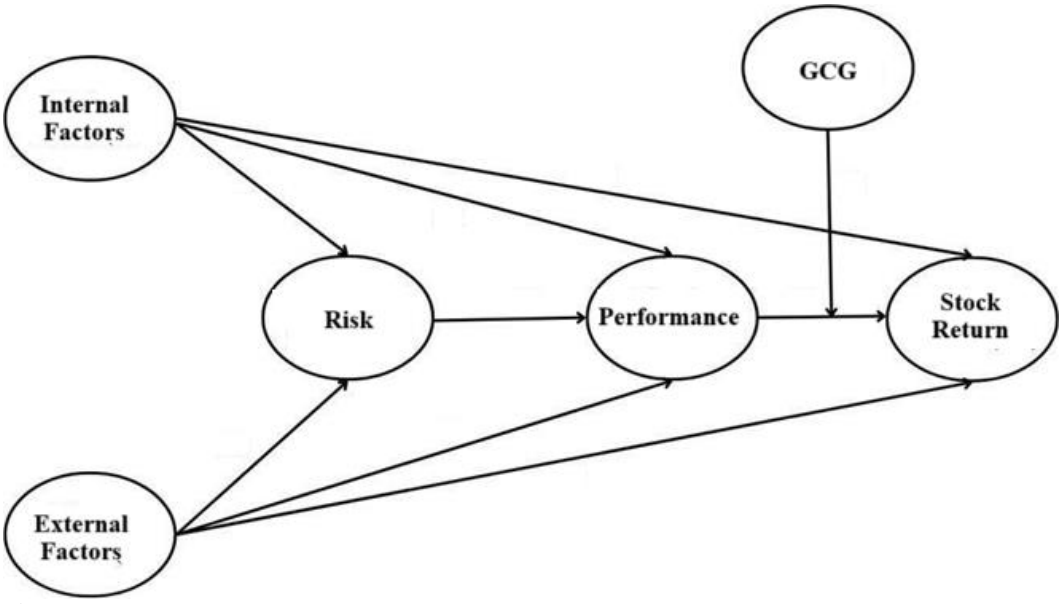

Figure 1.
Conceptual Framework.

Based on Figure 1, the hypothesis of this research is:

Hypothesis 1: Internal factors affect risk
Hypothesis 2: External factors affect risk
Hypothesis 3: Internal factors affect performance
Hypothesis 4: External factors affect performance
Hypothesis 5: Risk affects performance
Hypothesis 6: Risk mediates internal factors on performance
Hypothesis 7: Risk mediates external factors on performance
Hypothesis 8: Internal factors affect stock returns
Hypothesis 9: External factors affect stock returns
Hypothesis 10: Performance affects stock returns

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Hypothesis 11: Performance mediates the effect of internal factors on stock returns
Hypothesis 12: Performance mediates the effect of external factors on stock returns
Hypothesis 13: Performance mediates the effect of risk on stock returns
Hypothesis 14: Performance mediates the effect of internal factors and risk on stock returns
Hypothesis 15: Performance mediates the effect of external factors and risk on stock returns
Hypothesis 16: GCG moderates the effect of performance mediation on the influence of internal factors, external factors, and risk on stock returns

3. Methodology

This research utilises a quantitative approach, utilising Path Analysis for data examination. The study gathers data from the financial statements and annual reports of manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023. The research framework involves two independent variables. —internal factors (X1) and external factors (X2)—along with one dependent variable—stock returns (Y3)—two mediating variables—risk factors (Y1) and financial performance (Y2)—and one moderating variable—good corporate governance (X3). The stock return in this study is defined as the actual stock return, calculated by subtracting the stock price of company i at time t-1 (Pi,t-1) from the stock price of company i at time t (Pi,t), then dividing it by the stock price of company i at time t-1 (Pi,t-1). The formula used is as follows:

$$R\,i,t = \frac{\text{Pi,t} - \text{Pi,(t-1)}}{\text{Pi,(t-1)}} \quad (1)$$

Financial performance is calculated using the ROA ratio, or Return on Assets, which is calculated by dividing profit after tax by the company's total assets. The formula used is:

$$ROA = \frac{Profit\ after\ tax}{Total\ Asset} \quad (2)$$

Internal factors are the company's financial ratios, which include the liquidity ratio calculated using the current ratio. The profitability ratio is calculated using the Net Profit Margin (NPM) ratio, and the solvency ratio is calculated using the Interest Coverage Ratio:

$$Current\ Ratio = \frac{Current\ Asset}{Current\ Liabilities} \quad (3)$$

$$Interest\ Coverage\ Ratio = \frac{EBIT}{Interest} \quad (4)$$

External factors are macroeconomic factors that indicate the level and growth of a country's economy. GDP is the sum of products and services produced and provided in a certain period. GDP can be calculated using the formula:

$$GDP = \text{Consumption} + \text{Government Spending Investment} + (\text{Export} - \text{import}) \quad (5)$$

The company's business risk is measured using the Degree of Operating Leverage (DOL). DOL is calculated by dividing the percentage change in EBIT by the percentage change in sales. The percentage change in EBIT is calculated by subtracting the EBIT of the observation period from EBIT t-1, divided by EBIT in year t-1 of the observation period, multiplied by 100 per cent.

$$DOL\ \frac{percentage\ change\ in}{EBIT\ percentage\ change\ in\ sales} \quad (6)$$

Good corporate governance is measured using the gender diversity of the board of commissioners and the board of directors, and the percentage of minority genders compared to the total members of the board of directors and commissioners. Data collection will be facilitated through the IDX website, covering the entire population of manufacturing companies listed during the study period. The analysis encompasses 146 manufacturing companies in 2021, 158 in 2022, 167 in 2023, and 182 in 2024, categorising them into primary and chemical industries, diverse industries, and consumer goods sectors.

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Manufacturing firms are pivotal indicators of a nation's economic vitality due to their substantial contributions to GDP and employment. The selected timeframe provides a robust basis for evaluating industry trends and dynamics while mitigating the impact of transient fluctuations.

4. Result

Inferential statistics involve statistical methods applied to sample data to make inferences or conclusions about the sample, which was selected from the broader population. Inferential statistics are used in this research to evaluate the proposed hypotheses. The goal of hypothesis testing is to develop a well-fitting model using the SEM-PLS approach for data analysis.

Table 1.
Goodness of Fit Inner Model.

No	Model Fit and Quality Indices	Fit Criteria	Results	Information
1	Average Path Coefficient (APC)	$p < 0.05$	0.174, P<0.001	Good
2	Average R-squared (ARS)	$p < 0.05$	0.197, P<0.001	Good
3	Average Adjusted R-squared	$p < 0.05$	0.187, P<0.001	Good
4	Average block VIF (AVIF)	Acceptable if < 5, ideally < 3.30	1.109	Ideal
5	Average full collinearity VIF (AFVIF)	Acceptable if < 5, ideally < 3.30	1.125	Ideal
6	Tenenhous GoF (GoF)	Small ≥ 0.1; Medium	0.418	Ideal
		≥ 0.25; Large		
		≥ 0.36		

The analysis presents an Average Path Coefficient (APC) of 0.174, accompanied by a highly significant p-value of 0.001. This finding underscores the substantial influence of exogenous variables and moderation models on endogenous variables, indicating a noteworthy relationship in the structural equation model. Such a strong APC suggests that the independent factors examined in this study can affect the dependent variables meaningfully. Furthermore, the Average R-squared (ARS) value is recorded at 0.197, with a corresponding p-value of less than 0.001. This result indicates a strong explanatory capacity of the model, demonstrating that the independent variables can account for a significant portion of the variance in the dependent variables. This level of explanatory power is critical, as it reinforces the model's reliability in capturing the underlying dynamics at play. In addition, the Average Adjusted R-squared, which stands at 0.187 with a p-value less than 0.001, meets the significance criterion of $p < 0.05$. This statistic further validates the robustness of the model by accounting for the number of predictors used and ensuring that the model remains reliable despite potential overfitting. The Average block VIF (AVIF) and Average full collinearity VIF (AFVIF) are both reported to be below the ideal threshold of 3.30. This outcome indicates minimal multicollinearity concerns within the data, suggesting that the independent variables are not excessively correlated with one another. Such a finding is essential as it enhances the credibility of the results, ensuring that the estimates of the coefficients are stable and reliable. Finally, the Goodness of Fit (GoF) indicator has a value of 0.524, significantly exceeding the threshold of 0.360. This high GoF value suggests that the model exhibits a robust fit, indicating that the specified model accurately represents the data. The results presented in Table 6 thus confirm that the criteria for Goodness of Fit in the structural equation model have been satisfactorily achieved, providing confidence in the validity of the analysis and its implications for understanding the relationships among the variables under study. These results collectively affirm the model's strength and reliability in addressing the research questions posed.

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Table 2.
Combined Loadings and Cross-Loadings.

	Internal	External	Risk	Performance	Return	Gcg	Gcg*Kin	P-Value
NPM	0.443	0.1375	0.066	0.475	0.026	0.037	0.025	<0.001
CR	0.401	0.1451	0.093	0.313	0.007	0.092	0.026	<0.001
ICR	0.549	0.007	0.044	0.154	0.026	0.067	0.109	<0.001
GDP	0.000	1.000	0.000	0.000	0.000	0.000	0.000	<0.001
DOL	0.000	0.000	1.000	0.000	0.000	0.000	0.000	<0.001
ROA	0.034	0.209	0.090	0.597	0.020	0.010	0.084	<0.001
ROE	0.034	0.209	0.090	0.597	0.020	0.010	0.084	<0.001
RETURN_	0.000	0.000	0.000	0.000	1.000	0.000	0.000	<0.001
DIVERSI	0.000	0.000	0.000	0.000	0.000	1.000	0.000	<0.001
GCG*KIN	0.000	0.000	0.000	0.000	0.000	0.000	1.000	<0.001

Table 2 presents the factor loading values for the variables. The internal factor variable, measured by NPM and CR, and the external factor variable, measured by GDP, all exceed the threshold of 0.30 with p-values <0.001, indicating convergent validity. The risk variable, measured by DOL, shows a loading factor of 1.000 with a p-value <0.001, also meeting the criteria for convergent validity. The performance variable, assessed by both ROA and ROE, exhibits loading factors exceeding 0.300 with p-values <0.001, indicating convergent validity. Additionally, the stock return variable, measured by stock return, and the GCG variable, measured by board diversity, exceed the threshold with p-values <0.001.

Table 3.
AVE and Correlation Analysis.

	Internal	External	Risk	Performance	Return	Gcg	Gcg*Kin
INTERNAL	1.000	0.463	0.018	<0.001	0.190	0.529	0.156
EXTERNAL	0.463	1.000	0.687	0.002	0.086	0.084	<0.001
RISK	0.018	0.687	1.000	0.126	0.368	0.107	0.205
PERFORM	<0.001	0.002	0.126	1.000	0.129	0.637	0.156
RETURN	0.190	0.086	0.368	0.129	1.000	0.459	0.458
GCG	0.529	0.084	0.107	0.637	0.459	1.000	0.485
GCG*KIN	0.156	<0.001	0.205	0.156	0.458	0.000	1.000

According to Table 3, discriminant validity is verified when the square root of the Average Variance Extracted (AVE), present on the main diagonal, is greater than the correlation coefficients of the variable compared to the other variables. This is relevant for the internal factor variable, external factor variable, risk variable, performance variable, return variable, and GCG variable; their AVE roots are all 1.000, indicating perfect discriminant validity as their correlations with other variables are smaller.

Table 4.
Reliability Range of R-values.

	Information
r > 0.90	Very High Reliability (Very Good)
r > 0.80	High reliability (Good)
r > 0.70	Moderate reliability
r > 0.60	Medium reliability
r > 0.50	Low reliability
r < 0.40	Very low reliability

Source: Gliem and Gliem [28].

As measured by Cronbach's alpha, the internal factor variable exhibits a reliability value of 0.712, falling into the sufficient category. The external factors, risk, performance, stock return, GCG, and moderation model variables all show a Cronbach's alpha value of 1.000, indicating high reliability. The reliability of the data, confirmed through both composite reliability and Cronbach's alpha, signifies high

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reliability across all variables, enabling the data to be effectively utilised for hypothesis testing. The summary of the test results of the five hypotheses in this study is presented in the following table:

Table 5.
Summary of Hypothesis Testing Results with Warp PLS.

	Path	P-Value	Information
Internal factors ->risk *	0.232	<0.001	Hypothesis accepted
External factors-> risk *	0.046	0.232	Hypothesis rejected
Internal factors -> performance *	0.655	<0.001	Hypothesis accepted
External factor -> performance *	0.297	<0.001	Hypothesis accepted
Risk ->Performance *	0.193	0.024	Hypothesis accepted
Internal factors-> risk->Performance **		0.025	Hypothesis accepted
External factors -> Risk-> to performance**		0.470	Hypothesis rejected
Internal factors -> stock return *	0.136	0.028	Hypothesis accepted
External factors -> stock return *	0.147	0.038	Hypothesis accepted
Performance -> stock return *	0.164	0.042	Hypothesis accepted
Internal factors->Performance -> stock return **		0.019	Hypothesis accepted
External factors -> Performance -> stock return **		0.034	Hypothesis accepted
Risk -> Performance -> stock return **		0.043	Hypothesis accepted
Internal factors->risk ->Stock return performance ***		0.044	Hypothesis accepted
External factors ->risk ->stock returns ***		0.496	Hypothesis rejected
GCG moderates the mediating effect of performance on the effect of internal factors, external factors, and risk on stock returns	0.026	0.342	Hypothesis rejected

Note: * Direct effect ** Indirect effect 2 segment *** Indirect effect 3 segment.

5. Discussion

5.1. Internal Factors Positively Influence Risk

The study confirms that internal factors significantly and positively influence risk, as evidenced by a path coefficient of 0.232 ($p < 0.05$), thus supporting Hypothesis 1. This suggests that firms demonstrating strong internal metrics, such as high net profit margins, signal operational efficiency and sound cost control. However, as indicated by signaling theory [3] such profitability may also encourage risk-taking behaviour, particularly in the form of increased leverage to fund expansion initiatives.

This aligns with agency theory [29] where managers, acting as agents, may undertake riskier strategies when the firm's financial standing is strong, potentially to pursue their own incentives (e.g., bonuses tied to growth). Empirical findings from Muhammad, et al. [23] and Wang, et al. [13] similarly demonstrate that firms with superior profitability metrics are more likely to engage in higher-risk activities, especially when internal governance structures allow managerial discretion. Thus, while internal efficiency fosters financial strength, it must be complemented by robust governance to avoid excessive risk exposure.

5.2. External Factors Positively Influence Risk

The results for Hypothesis 2 reveal a positive but statistically insignificant effect of external factors on risk (path coefficient = 0.046; $p = 0.23$). Although external dynamics such as macroeconomic conditions, political stability, and trade environments are known to influence corporate risk profiles, their impact appears limited in this context.

This could be attributed to the diversified nature of many manufacturing firms, which allows them to buffer against local economic shocks a point supported by Almaqtari, et al. [12] and Ruhomaun, et al. [7]. Moreover, Purbawangsa, et al. [1] highlight that firms engaged in international operations often hedge against local economic instability, weakening the direct link between domestic external factors and risk. This finding challenges the assumption of a universal effect of macroeconomic variables on firm-level risk and suggests the importance of firm-specific strategic positioning.

5.3. Internal Factors Positively Influence Performance

Internal factors exhibit a strong positive impact on firm performance (path coefficient = 0.655; $p < 0.001$), confirming Hypothesis 3. This finding supports the premise of resource-based theory, which posits that internal capabilities such as operational efficiency, liquidity, and profitability are key sources of sustainable competitive advantage [5, 25].

Moreover, the results align with stewardship theory, where management is assumed to act in the best interest of the firm, and internal financial health facilitates strategic decisions that enhance firm value [18]. Firms with sound internal governance structures and effective resource allocation can attract more favorable financing and weather external shocks, thereby strengthening their financial resilience and performance.

5.4. External Factors Positively Influence Performance

The findings confirm Hypothesis 4, showing a significant positive impact of external factors on firm performance (path coefficient = 0.297; $p < 0.001$). External environments such as GDP growth, technological advancements, and regulatory frameworks create opportunities for revenue expansion and innovation. This is consistent with the findings of Ben Fatma and Chouaibi [30] and Al-Qudah and Houcine [31] who report that favorable macroeconomic conditions positively affect firm-level performance, especially in well-regulated markets.

This also supports institutional theory, which suggests that firms are influenced by the norms and pressures of the external environment, pushing them toward practices that align with market expectations. Firms that can effectively respond to these institutional pressures through innovation and adaptation are more likely to perform better.

5.5. Risk Positively Influences Performance

The study supports Hypothesis 5, confirming that risk positively affects performance (path coefficient = 0.193; $p = 0.024$). While risk is traditionally associated with potential downsides, strategic risk-taking when well-managed can be a source of innovation and competitive advantage. This dual role of risk is highlighted in the studies by Huang, et al. [24] and Jebran and Chen [32] showing that proactive risk engagement enhances long-term profitability.

This relationship also resonates with the risk-return tradeoff principle in finance and echoes the findings of Karim, et al. [11] which show that firms with strong risk management committees can translate risk into performance gains.

5.6. Mediating Role of Risk

The results show that risk significantly mediates the relationship between internal factors and performance ($p = 0.040$), partially confirming Hypothesis 6. This suggests that internal factors not only have a direct impact on performance but also influence how risk is managed, which in turn affects outcomes. This finding is consistent with Nafasati and Hilal [22] who argue that well-structured internal systems enable firms to absorb risk more effectively and convert it into a competitive advantage.

However, Hypothesis 7 is not supported ($p = 0.470$), indicating that risk does not mediate the effect of external factors on performance. External influences may act directly or may be moderated by other variables such as organizational agility or technological readiness highlighted in Soewarno and Ramadhan [21] rather than through risk pathways alone.

5.7. Relationships with Stock Returns

The results further show that both internal and external factors significantly influence stock returns (path coefficients = 0.136 and 0.147, respectively; $p < 0.05$), with performance acting as a significant mediator (Hypotheses 11 and 12 supported). This relationship aligns well with signaling theory [3]

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where strong performance and stable internal conditions send positive signals to investors, thereby boosting market valuation.

Moreover, the direct effect of performance on stock returns (path coefficient = 0.297; p = 0.001) underscores the central role of financial transparency and operational success in driving investor confidence an observation supported by Salehi, et al. [15] and Rezaee and Safarzadeh [33]. This connection reinforces the idea that both firm fundamentals and macroeconomic signals are crucial drivers of stock market responses in emerging markets.

5.8. Theoretical and Practical Implications

This study contributes a dual-mediation framework that integrates business risk and financial performance to assess the impact of internal and external factors on stock returns, specifically within the post-COVID Indonesian manufacturing sector. The insignificant moderating role of corporate governance challenges established theories, such as agency theory, suggesting the need to explore context-specific governance models, as discussed by Robiyanto, et al. [2] and Teixeira and Carvalho [27].

Methodologically, the use of WARP PLS enables capturing complex and non-linear relationships, offering nuanced insights for policymakers and investors in emerging markets, where conventional linear models may fall short. This study provides a foundation for re-evaluating governance effectiveness and risk management practices in rapidly evolving economic environments.

6. Conclusion

The study explored the influence of internal and external factors on company risk, performance, and stock returns, with Good Corporate Governance (GCG) as a moderating variable. The results show that internal factors, particularly financial ratios and leverage, significantly affect company risk, while external factors negatively impact risk. Both internal and external factors positively influence company performance, with internal factors enhancing operational efficiency and external factors offering opportunities through favourable market conditions. Risk plays a mediating role between internal factors and performance, but does not mediate the relationship between external factors and performance. Internal and external factors directly influence stock returns, with company performance as a key mediator in linking these factors to stock returns. However, GCG did not show a significant moderating effect on the relationship between performance and stock returns, suggesting that other factors may be more influential in these relationships. The findings emphasise the importance of managing internal factors, especially financial ratios and leverage, to control risk and enhance sustainable performance. Effective risk management can help improve investor perceptions and reduce potential negative impacts on performance. For future research, exploring additional dimensions of internal factors, such as organisational structure, company culture, and managerial competence, would be valuable. Investigating external factors like technological advancements, industry disruptions, and regulatory changes could provide deeper insights into their dynamic impact on company risk and performance. Moreover, comparative studies across different industries and further examination of specific GCG elements, such as board structure and transparency, may offer additional understanding of their role in moderating the relationships between performance and stock returns.

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Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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