

Agency Cost in the Profitability-Financial Sustainability Nexus: Evidence from ASEAN Emerging Markets

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Abstract

Purpose: This study examines the effect of profitability on financial sustainability while investigating the dual role of agency cost as a mediator and moderator among publicly listed non-financial companies in Indonesia, Malaysia, and the Philippines from 2020 to 2024.

Research Methodology: This quantitative study employs secondary panel data from 581 publicly listed non-financial companies, producing 2,905 firm-year observations. Financial data were obtained from Bloomberg and analyzed using Stata through fixed-effects panel regression with Driscoll–Kraay robust standard errors.

Results: The findings show that profitability enhances financial sustainability and reduces agency costs. Agency costs negatively affect financial sustainability and partially mediate the relationship between profitability and sustainability. However, agency costs do not moderate this relationship, indicating that it functions as a transmission mechanism rather than a boundary condition.

Conclusions: This study extends agency theory by demonstrating that agency costs primarily explain how profitability contributes to long-term financial sustainability. It also supports Signaling Theory by showing that profitable firms tend to demonstrate stronger governance quality and financial resilience.

Limitations: Agency cost is measured using a single accounting-based proxy, and its relatively small mediation effect (5.66%) and insignificant moderating effect limit the interpretation of its role in the relationship between profitability and financial sustainability.

Contributions: This study contributes to the literature by integrating the mediating and moderating roles of agency costs within the profitability and sustainability framework. Practically, the findings provide insights for managers, investors, and policymakers to strengthen governance practices that support sustainable growth in emerging ASEAN markets.

Keywords: *Agency Cost, Financial Sustainability, Governance, Profitability, Resource-Based View Theory*

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1. Introduction

Global corporations currently operate under considerable macroeconomic pressure, as tightening credit conditions, geopolitical conflicts, disrupted supply chains, and increasingly stringent investor expectations regarding governance have compelled managers to reconsider what constitutes genuine corporate success ([Bhuae, Gartia, Panda, & Tiwari, 2025](#); [Gleißner, Günther, & Walkshäusl, 2022](#)). A firm capable of reporting strong quarterly profits may nonetheless collapse within a relatively short period if it fails to sustain that performance during periods of economic disruption ([Altman, Iwanicz-Drozdowska, Laitinen, & Suvas, 2022](#)). Consequently, researchers have increasingly distinguished financial sustainability from conventional profitability, arguing that although traditional accounting indicators, such as Return on Assets (ROA) and Return on Equity (ROE), measure the efficiency with which firms convert resources into short-term earnings, these metrics provide limited evidence regarding a firm's ability to preserve financial flexibility, withstand external shocks, and generate stable value over time ([Gleißner et al., 2022](#); [Nosratabadi, Mosavi, Shamsirband, Zavadskas, Rakotonirainy, & Chau, 2020](#); [Atayah, Dhiyf, Najaf, & Frederico, 2023](#)). Therefore, financial sustainability extends beyond periodic accounting performance by capturing a firm's capacity to maintain economic resilience, ensure long-term solvency, and continuously finance future operations under changing business environments ([Baxamusa & Jalal, 2024](#)).

Agency costs occupy a central position within this problem because managers who pursue private benefits rather than shareholder wealth frequently allocate internally generated resources inefficiently, thereby preventing profitability from being transformed into durable financial strength ([Jensen, & Meckling, 1976](#); [Moez, 2024](#)). Agency theory suggests that managerial opportunism increases information asymmetry, overinvestment, and inefficient resource allocation, ultimately weakening firms' long-term financial resilience ([Eisenhardt, 1989](#); [Ahmed, Nugraha, & Hågen, 2023](#)). Recent empirical studies have also indicated that profitability contributes to financial sustainability only when effective governance mechanisms constrain managerial self-interest, reduce agency costs, improve investment efficiency, and ensure that internally generated cash flows are directed toward productive long-term investments rather than managerial consumption or inefficient expansion ([Nasrawin, Alshehadeh, Jebri, Al-Khawaja, & Albalawee, 2025](#); [Baxamusa and Jalal, 2024](#); [Kyere, & Ausloos, 2021](#); [Ahmed et al., 2023](#)). Nevertheless, despite the strong theoretical foundation established by agency theory and corporate governance literature, relatively few empirical studies have directly examined whether agency costs constitute the mechanism through which profitability is transformed into long-term financial sustainability, particularly within emerging capital markets characterized by concentrated ownership and institutional imperfections.

Indonesia, Malaysia, and the Philippines illustrate this problem with clarity. Companies listed on these three markets have navigated substantial shifts in capital market conditions and corporate governance frameworks following the pandemic ([OECD, 2024](#)). Although the region sustained strong economic growth throughout this period, this growth has relied more heavily on investment and capital deepening than on productivity gains. Sustaining growth will require firms to shift toward productivity-driven expansion rather than continued reliance on short-term profit and investment volume alone ([WorldBank, 2024](#)). Therefore, firms operating in these markets face a dual mandate: sustaining profitability while simultaneously building the financial resilience that volatile capital flows and shifting investor sentiment demand. Family controlled conglomerates dominate several of the largest listed entities across these markets, a structural characteristic that widens the divergence between managerial incentives and shareholder interests, which is central to agency theory ([Nguyen, Tran, & Truong, 2024](#)). Controlling shareholders operating within this ownership structure tend to elevate agency costs beyond the levels typically observed in more dispersed markets ([Ye & Li, 2025](#)), a pattern corroborated by evidence from other emerging markets showing that concentrated ownership depresses firm performance through the same agency channel ([Bishwas, & Hossain, 2025](#); [Roy, 2023](#)). This dynamic complicates the profitability-to-sustainability pathway that governance research generally presumes. Although five years of post-pandemic panel data spanning 2020 to 2024 now exist across these three exchanges, few researchers have examined whether profitable ASEAN firms

achieve financial sustainability or whether agency costs account for variation in this outcome. This gap in the literature motivated the present study.

Existing studies confirm that profitability, governance, and agency costs each contribute meaningfully to corporate performance; however, their findings remain dispersed across largely unrelated outcomes. [Ronoowah and Seetanah \(2024\)](#) demonstrate that agency cost simultaneously mediates and moderates the relationship between capital structure and firm performance, a finding that [Sdiq and Abdullah \(2022\)](#) reinforce using an operating expense-based agency cost measure in an emerging Middle Eastern economy. [Pham and Nguyen \(2026\)](#) found that agency costs weaken the positive relationship between investment and corporate performance under conditions of weak governance. [Baxamusa and Jalal \(2024\)](#) reported that environmental regulation reduces agency costs and subsequently enhances future corporate performance. [Nasrawin et al. \(2025\)](#) demonstrate that governance mechanisms support sustainable growth by lowering agency cost. Collectively, these four studies span the capital structure, investment efficiency, environmental regulation, and growth outcomes. However, none of these studies examine whether the profit a firm generates translates into a financial position capable of enduring beyond the reporting period in which it is recorded. Although each study positions agency costs as central to governance research, none directly measures financial sustainability, relying instead on conventional accounting performance, which captures a single period rather than a sustained trajectory of financial sustainability. This is a limitation consistent with broader evidence that accounting-based profitability and long-run firm value often diverge and respond to different underlying drivers ([Suharman, Nisa, Pramesti, & Handoyo, 2026](#)). This leaves an unresolved question central to the field: Does profitability independently build financial sustainability, or does its contribution depend on the extent to which a firm controls agency-related inefficiency? None of the studies reviewed here addressed this question, thereby establishing the foundation for the present research.

Four principal gaps emerge from this literature. First, researchers typically examine agency costs either as a mediator explaining how financial variables transmit their effects on performance or as a moderator that alters the strength of such relationships, but rarely as both simultaneously within a single framework connecting profitability to financial sustainability ([Ahmed et al., 2023](#); [Sdiq and Abdullah, 2022](#)). Although [Ronoowah and Seetanah \(2024\)](#) examine both roles concurrently, their analysis centers on capital structure rather than profitability. Furthermore, studies isolating mediation and those isolating moderation draw upon distinct samples and time windows, such that no single dataset demonstrates how these two mechanisms interact within the same firm during the same period. Second, although numerous studies link profitability to firm performance ([Kyere and Ausloos, 2021](#); [Nguyen et al., 2024](#)). Few explicitly identify the mechanism through which profitability contributes to long-term financial sustainability via a reduction in agency costs. Existing agency theory research has largely concentrated on capital structure, investment efficiency, and governance mechanisms rather than profitability as the primary antecedent of agency costs ([Ahmed et al., 2023](#); [Ronoowah and Seetanah, 2024](#)). Third, researchers frequently rely on short-term indicators (ROA), which reflect financial outcomes within a single accounting period, rather than a firm's capability to maintain economic resilience and sustainable value creation over multiple years ([Kyere and Ausloos, 2021](#); [Nosratabadi et al., 2020](#)). Fourth, the majority of existing evidence originates from single-country or narrow industry-specific contexts, including Turkey by [Kalash \(2024\)](#), China by [Su and Zhao \(2026\)](#), Vietnam by [Pham and Nguyen \(2026\)](#), Mauritius by [Ronoowah and Seetanah \(2024\)](#) and Iran by [Ahmed et al. \(2023\)](#), leaving emerging ASEAN markets, characterized by concentrated ownership, family block control, and evolving institutional frameworks, comparatively under-examined despite their growing significance within global capital flows. Collectively, these four gaps converge on a single unresolved question: how does profitability translate into long-term financial sustainability, and what role does agency cost play in this conversion process within a market where ownership concentration and institutional volatility shape managerial governance decisions?

This study fills these gaps with conceptual reframing and new empirical evidence. It shifts the analytical lens from short-term accounting performance to long-term financial sustainability and treats profitability as a strategic resource whose value depends on how a firm governs it. Agency theory

provides the theoretical foundation: internally generated funds cannot build sustainable value unless governance structures control the conflicts between managers and shareholders, as the theory predicts. Within this framework, agency cost is examined as a potential mechanism linking profitability to financial sustainability and as a potential boundary condition that may alter the strength of this relationship. Accordingly, rather than assuming a dual role, this study empirically tests whether agency costs mediate and/or moderate the relationship between profitability and financial sustainability. This distinction is important because the two roles represent different theoretical functions: mediation explains how profitability translates into financial sustainability, whereas moderation identifies the conditions under which this relationship varies. This study draws its evidence from panel data on publicly listed non-financial firms in Indonesia, Malaysia, and the Philippines from 2020 to 2024, a period marked by post-pandemic recovery, elevated economic uncertainty, growing investor demand for governance quality, and steady expansion in the number of firms disclosing governance-related financial data. This study tests whether profitability affects financial sustainability on its own, whether agency cost mediates this effect, and whether agency cost moderates the strength of the profitability-sustainability relationship. Section 2 reviews the literature and develops the hypotheses. Section 3 details the proposed methodology. Section 4 presents the empirical findings and discussions. Section 5 concludes with the theoretical and managerial implications, limitations, and directions for future research.

2. Literature Review and Hypotheses Development

2.1 Literature Review

2.1.1 Agency Theory

Agency theory provides the foundation for this study by explaining how the separation between ownership and control creates conflicts that influence corporate decisions and the long-term outcomes. [Jensen and Meckling \(1976\)](#) argue that the separation of ownership and control creates divergent interests between shareholders and managers, potentially generating agency costs through monitoring expenditures and bonding mechanisms and resulting in residual losses. When managers control substantial internal resources, profitable firms may face greater opportunities for inefficient investments, excessive expenditures, or decisions that prioritize managerial interests over shareholder value. Therefore, effective governance is essential to ensure that internally generated resources are allocated to productive activities that support long-term corporate resilience.

In this study, agency costs are conceptualized as potential transmission mechanisms through which profitability affects financial sustainability. Higher profitability provides firms with greater internal resources; however, the extent to which these resources contribute to sustainable growth depends on how efficiently managerial discretion is controlled. Lower agency costs may facilitate productive resource allocation, whereas higher agency costs may weaken the conversion of profitability into a sustainable long-term financial structure. This perspective is consistent with recent evidence showing that governance mechanisms and agency costs influence corporate performance and sustainable growth ([Baxamusa & Jalal, 2024](#); [Nasrawin et al., 2025](#); [Ronoowah & Seetanah, 2024](#)).

Agency theory also provides a basis for examining whether agency costs act as a boundary condition. If agency conflicts alter managerial responses to profitability, the strength of the profitability–financial sustainability relationship may vary according to the level of agency costs. Accordingly, this study does not assume that agency costs necessarily perform both roles; rather, it empirically tests whether agency costs operate as a mediator and/or moderator. This distinction allows the study to determine whether agency costs primarily explain how profitability contributes to financial sustainability or whether they also condition the strength of that relationship.

2.1.2 Resource-Based View Theory

The Resource-Based View (RBV) complements agency theory by explaining why profitability can contribute to financial sustainability as a firm-level strategic resource. [Barney \(1991\)](#) argues that firms achieve a sustained competitive advantage by effectively developing and deploying valuable, rare, inimitable, and non-substitutable resources. From this perspective, profitability reflects not only current financial performance but also a firm's capacity to generate and retain internal resources that

can support future investment, financial flexibility, and resilience. However, the availability of financial resources alone does not guarantee sustainability. Their contribution depends on how effectively managers allocate and utilize resources. Consequently, profitability can strengthen financial sustainability when internally generated resources are directed toward productive investment and long-term value creation. This perspective complements the agency theory. RBV explains why profitability represents a valuable internal resource, whereas agency theory explains why agency-related inefficiencies may determine whether that resource is converted into sustainable financial outcomes. Therefore, the interaction of these perspectives provides a theoretical basis for examining the relationship between profitability and financial sustainability and the potential role of agency costs within it.

2.1.3 Signaling Theory

Signaling theory explains how firms communicate information about their financial conditions and future prospects to external stakeholders under information asymmetry ([Connelly et al., 2011](#)). Profitability can serve as a credible signal of financial strength because profitable firms have a greater capacity to generate internal funds, meet financial obligations, and sustain future operations. This signal is particularly relevant in emerging markets, where information asymmetry may increase stakeholders' reliance on observable financial performance. However, profitability alone does not necessarily ensure financial sustainability, as stakeholders may also assess the efficiency with which firms allocate and utilize their generated resources. Therefore, signaling theory complements agency theory, and profitability signals financial strength, whereas agency costs reflect whether managerial inefficiency may weaken the conversion of that strength into sustainable outcomes. Thus, the relationship between profitability and financial sustainability reflects both firms' financial capacity and their ability to sustain value over time.

2.2 Hypotheses Development

2.2.1 Profitability and Financial Sustainability

Profitability measures how efficiently a firm turns operations into earnings, and agency theory frames that capacity as a double-edged resource. It gives managers more discretionary funds, and those funds build financial sustainability only when governance channels them toward productive investments rather than private benefits. Signalling theory reinforces this logic, since profitable firms send credible signals of operational strength that lower funding costs and ease capital access. [Cupertino, Vitale, and Riccaboni \(2021\)](#), [Guru and Panda \(2024\)](#), and [Sulimany \(2025\)](#) confirm that profitable firms sustain long-term financial performance more consistently than their less profitable peers. [Santosa \(2020\)](#) showed that profitability shapes financing decisions more directly than it shapes sustainability. Recent evidence from large samples reinforces the positive direction of this relationship. [Carreira, Silva, and Cepêda \(2025\)](#), using nearly 30,000 firm-year observations worldwide, find that more profitable firms achieve significantly stronger sustainability performance, suggesting that the pattern holds broadly across markets and time periods rather than in isolated samples. Based on this evidence, this study proposes the following hypotheses:

H₁: Profitability positively affects financial sustainability

2.2.2 Profitability and Agency Cost

Agency theory also predicts a link between profitability and agency costs, since firms with stronger financial performance typically operate under closer shareholder scrutiny, which narrows the space for managerial opportunism. [Anh, Linh, Hang, Khue, Quang, Trung, and Mai \(2024\)](#) find that effective governance significantly reduces the agency costs. [Baxamusa and Jalal \(2024\)](#) show that governance pressure disciplines the managers and lowers agency costs. Signalling theory states that consistently profitable firms transmit credibility that reinforces market discipline. [DeAngelo, Kahle, and Skinner \(2025\)](#) warn that abundant internally generated cash can expand managerial discretion under weak governance, which increases agency costs. [Kalash \(2024\)](#) sharpens this warning by showing that equity agency costs worsen the negative effect of excess cash on performance, whereas debt agency costs partly offset it. [Nobanee and Abraham \(2017\)](#) add a related nuance, finding that the corporate form shapes profitability mainly through its effect on free cash flow-driven agency costs rather than

through operating performance directly. The dominant prediction still favors a negative relationship when governance functions effectively; therefore, this study proposes the following hypothesis:

H₂: Profitability negatively affects agency costs

2.2.3 Agency Cost and Financial Sustainability

Agency theory explains the effect of agency costs on financial sustainability through inefficient capital allocation: when managers pursue private benefits, resources drift away from the productive investments that sustainability requires. [Nasrawin et al. \(2025\)](#) find that governance mechanisms that reduce agency costs significantly increase sustainable growth, and [Kendo and Tchakounte \(2022\)](#) show that lower agency costs strengthen financial integration and institutional performance. Signalling theory states that high agency cost signals weak oversight, which erodes stakeholder confidence and raises the cost of capital. [Su and Zhao \(2026\)](#) confirm that agency costs weaken financial outcomes, even when resources are available on balance sheets. [Roy \(2023\)](#) and [Kontus \(2021\)](#) report the same pattern from a different angle, finding a negative relationship between agency costs and company performance and a negative relationship between free cash flow and agency costs. Based on this evidence, this study proposes:

H₃: Agency costs negatively affect financial sustainability

2.2.4 Agency Cost as a Mediating Variable

Agency theory positions agency cost as the transmission channel linking profitability to financial sustainability: profitable firms generate resources, but those resources build sustainable value only when governance keeps agency conflict in check. [Su and Zhao \(2026\)](#) show that agency costs mediate the relationship between capital structure and financial performance, and [Kendo and Tchakounte \(2022\)](#) report a similar mediating role linking financial development to institutional performance. [Nasrawin, Alshehadeh, Jebri, Al-Khawaja, and Albalawee \(2025\)](#) reinforce this chain by showing that governance mechanisms lift sustainable growth specifically by cutting agency cost, and [Khan, Khidmat, Muhammad, and Saleem \(2020\)](#) reach a comparable conclusion, positioning agency cost as an intervening variable that explains how capital structure, firm size, and governance jointly shape corporate performance. Prior mediation studies center on capital structure and governance rather than profitability itself, leaving the profitability-to-sustainability pathway through agency costs untested. This study closes this gap and proposes the following:

H₄: Agency costs mediate the relationship between profitability and financial sustainability

2.2.5 Agency Cost as a Moderating Variable

Agency theory further predicts that agency costs condition the strength of the relationship between profitability and financial sustainability, since managerial discretion over retained earnings can reinforce or undercut the value of the profit created. [Pham and Nguyen \(2026\)](#) provide the clearest evidence: agency costs negatively moderate the relationship between investment and corporate performance, and the same logic should extend to profitability. [Ronoowah and Seetanah \(2024\)](#) show that agency costs can simultaneously moderate and mediate financial relationships, and [Baxamusa and Jalal \(2024\)](#) confirm that governance quality shapes how effectively financial resources are converted into performance. Prior moderation research focuses on investment and capital structure rather than profitability, leaving this specific boundary condition untested. Based on this evidence, this study proposes:

H₅: Agency costs negatively moderate the relationship between profitability and financial sustainability, such that the positive effect of profitability on financial sustainability becomes weaker when agency costs are higher

3. Research Methodology

3.1 Research Design and Sample Selection

This study employed a quantitative research approach using secondary panel data to examine the effect of profitability on financial sustainability while considering the mediating and moderating roles

of agency costs. Panel data were selected because they combine cross-sectional and time-series observations, enabling the analysis to capture both inter-firm heterogeneity and temporal dynamics that cannot be observed using a single cross-sectional or time-series approach. The empirical analysis focused on publicly listed non-financial firms in three emerging ASEAN capital markets: Indonesia, Malaysia, and the Philippines. These countries were selected because they share relatively similar institutional characteristics as emerging economies while exhibiting different corporate governance environments, ownership structures, and capital market developments, thereby providing an appropriate setting for examining the relationship between profitability, agency costs, and financial sustainability.

The initial population consisted of all non-financial companies continuously listed on the Indonesia Stock Exchange, Bursa Malaysia, and the Philippine Stock Exchange during the observation period. Financial institutions, including banks, insurance companies, securities firms, and other financial service providers, were excluded because they operate under substantially different regulatory frameworks, capital structures, and accounting standards, which may distort the comparability of the financial sustainability measures. Purposive sampling was employed to ensure that only firms capable of providing complete and comparable financial information were included in the final sample. As shown in Table 1, the sample selection process was conducted systematically based on predetermined criteria, resulting in a final sample of 581 firms and 2,905 firm-year observations for the 2020–2024 observation period. The sample selection process was conducted sequentially using the following criteria.

Table 1. Sample selection procedure

Criteria	Indonesia	Malaysia	Philippines	Total
Initial non-financial firms listed	895	1,056	247	2,198
Less: Firms reporting losses during 2015–2024	(689)	(765)	(149)	(1,617)
Firms reporting negative equity during 2015–2024	(0)	(0)	(0)	(0)
Firms with incomplete annual report information	(9)	(5)	(0)	(14)
Final sample (firms)				581
Data observations (2020–2024)				2,905

The 2020–2024 study period was selected to capture post-pandemic recovery, a period characterized by structural economic adjustment and heightened uncertainty, making it an appropriate context for assessing firms' financial sustainability. The sample selection process was conducted in four stages using non-financial firms listed in the Bloomberg Terminal Database across Indonesia, Malaysia, and the Philippines. From an initial population of 2,198 firms, companies reporting persistent losses during 2015–2024 were excluded to avoid distress bias, and firms with negative equity and incomplete annual reports were subsequently removed. Profitability and equity criteria were applied to ensure that the financial sustainability measure reflected firms' capacity for genuine growth, solvency, and long-term survival, consistent with [Gleißner, Günther, and Walkshäusl \(2022\)](#) financial sustainability framework. However, the exclusion of approximately 73% of the initial population may introduce survivorship bias, as the final sample predominantly represents financially stable and profitable firms in the industry. Consequently, the findings should be interpreted with caution, particularly regarding their generalizability to firms that experience persistent financial distress.

3.2 Operational Definition and Measurement of Variables

Table 2 presents the operational definitions, proxies, and measurement formulas for each variable in the model.

Table 2. Operational definition and measurement of variables

Variables	Definition	Proxy	Measurement
Financial Sustainability (FS) – dependent variable	A firm's long-term ability to maintain financial resilience, preserve financial stability, and continuously create economic value.	Four-dimensional financial sustainability framework (Gleißner et al., 2022)	Measured using four complementary dimensions: real growth, survival probability, earnings risk exposure and value creation.
Profitability (ROA) – independent variable	A firm's ability to generate earnings from its economic resources and shareholders' investments reflects its operational efficiency and financial performance.	Return on Assets	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$ (Ajeigbe et al., 2021; Anh et al., 2024; Kala et al., 2025; Santosa, 2020)
Agency Cost (AC) - mediating and moderating variable	Costs arising from conflicts of interest between shareholders and managers reduce organizational efficiency and resource allocation effectiveness.	Operating Expense Ratio	$ROPEX = \frac{\text{Operating Expenses}_t}{\text{Net Sales}_t}$ (Anh et al., 2024; Salehi et al., 2021; Tayeh et al., 2023)
Firm Size (SIZE) – control variable	Firm scale reflects organizational resources and operational capacity.	Natural logarithm of Total Assets	$SIZE = \ln(\text{Total Assets})$ Cupertino et al. (2021); Mendoza et al. (2021); Santosa (2020)
Operating Cash Flow (CFO) – control variable	Internal cash generated from operating activities represents corporate liquidity.	Operating Cash Flow Ratio	$CFO = \frac{\text{Operating Cash Flow}_t}{\text{Total Assets}_t}$ (Su & Zhao, 2026)

Financial Sustainability, adapted from Gleißner et al. (2022), evaluates firms across four dimensions of financial conditions. This measurement applies a binary scoring approach (0 or 1) to each criterion, producing a composite score ranging from 0 to 4, which reflects the firm's long-term financial health. A higher composite score indicates a greater degree of sustainability. The measurement shown in Table 3

Table 3. Operational measurement of financial sustainability

Dimension	Definition	Measurement	Criteria
Real Growth	It measures a firm's long-term sustainability through the growth rate of net income over five consecutive years. The net income must remain positive throughout the observation period.	$g = \left(\frac{NI_t}{NI_{t-5}} \right)^{\frac{1}{5}} - 1$ where g is the net income growth rate, NI_t is the net income after tax in year t, and NI_{t-5} is the net income after tax in the first year.	$g \geq 2\%$ per year, indicating that real earnings growth exceeds the long-term inflation target.
Survival Probability	It evaluates a firm's ability to survive financial distress by combining capital adequacy and operating profitability.	$p = \frac{0.265}{1+2.71828-0.41+7.42(ER)+11.2(ROE)}$ Where: p = probability of bankruptcy; ER = Equity Ratio (Book Equity / Total Assets); $ROCE$ = EBIT / Lagged Total Assets.	$p \leq 1\%$ per year, indicating a low bankruptcy risk (approximately equivalent to a BB credit rating).
Earnings Risk Exposure	Earnings stability is measured using the coefficient of variation of net income during the previous five years.	$C = \frac{\sigma(NI)}{NI_{t,t-5}}$ Where: C = coefficient of variation of earnings; $\sigma(NI)$ = standard deviation of net income over five years; $NI_{t,t-5}$ = average net income over five years.	$C \leq 40\%$, indicating low earnings volatility and a stable operating performance.

Dimension	Definition	Measurement	Criteria
Value Creation	It measures whether a firm creates sufficient economic value to justify its continuation by estimating firm value based on sustainable earnings.	$v = \frac{\overline{ni}_{t,t-5}(1-p)}{i-p}$ where: v = estimated firm value; $\overline{ni}_{t,t-5}$ = average net income over five years; p = survival probability; i = weighted average cost of capital (wacc).	$V \geq$ Book Value of Equity, indicating that the firm creates positive economic value and is financially sustainable.

3.3 Data Collection Method

This study relied on secondary quantitative data obtained from the Bloomberg Database. Bloomberg was selected because it provides standardized financial statement information, market data, and corporate financial indicators collected directly from audited annual reports and official exchanges. The database applies standardized reporting procedures across countries, thereby enhancing the comparability of listed firms operating under different regulatory environments.

3.4 Data Analysis Method

The empirical analysis was conducted using STATA. The analysis began with descriptive statistics to summarize the distribution, central tendency, and variability of all the research variables. Correlation analysis was subsequently performed to examine the preliminary relationships among the variables and identify potential multicollinearity issues. Panel regression analysis was the primary analytical approach because the dataset combined cross-sectional observations across firms with time-series observations over multiple years. Panel regression estimation was performed using robust standard errors to mitigate potential heteroscedasticity and serial correlation. The direct relationships among profitability, agency costs, and financial sustainability were first estimated. The mediating effect of agency costs was subsequently examined using the causal steps regression procedure and the indirect effect estimation employed in the empirical analysis. The moderating effect was then evaluated by introducing an interaction term between profitability and agency costs into the regression model. Finally, the statistical significance of all hypotheses was evaluated using t-statistics and the corresponding probability values at conventional significance levels (1%, 5%, and 10%). This sequential analytical procedure ensured that both the direct and conditional relationships proposed in the conceptual framework were rigorously and consistently evaluated using panel data econometric techniques.

4. Results and Discussions

4.1 Result

Table 4 presents the descriptive statistics for the research variables. Financial sustainability recorded a mean value of 1.986, with a standard deviation of 0.764, indicating moderate variation in firms' financial sustainability across the sample. Profitability, measured by ROA, exhibited an average value of 0.069 with a standard deviation of 0.064. Agency cost, proxied by the operating expense ratio, averaged 0.234. Firm size showed an average logarithmic value of 19.452, and the average operating cash flow was 0.085. Overall, the descriptive statistics indicate sufficient variability among firms, suggesting that the panel dataset is appropriate for the subsequent econometric analysis.

Table 4. Statistic descriptive

Variables	Obs	Mean	Std. Dev.	Min	Max
FS	2,905	1.986	0.764	0	3
ROA	2,905	0.069	0.064	0.004	0.603
AC	2,905	0.234	0.228	0.01	0.98
UP	2,905	19.452	1.71	14.258	24.568
CFO	2,905	0.085	0.088	-0.125	0.398

Furthermore, the pairwise correlation coefficients in Table 5 reveal that Financial Sustainability is positively associated with profitability and operating cash flow but negatively associated with agency

costs, providing preliminary evidence consistent with the proposed theoretical relationships. The magnitude of the correlation coefficients also suggests that multicollinearity is unlikely to be a concern because none of the independent variables exhibit excessively high pairwise correlations.

Table 5. Pairwise correlation

Variables	FS	ROA	AC	UP	CFO
FS	1.000				
ROA	0.314*	1.000			
AC	-0.064*	-0.036	1.000		
UP	-0.024	-0.089*	-0.075*	1.000	
CFO	0.191*	0.649*	-0.018	0.001	1.000

Prior to hypotheses testing, diagnostic procedures confirmed that the regression models satisfied the required statistical assumptions. The data passed the multicollinearity assessments (mean VIF 1.00), supporting the appropriateness of panel regression analysis. Model selection procedures further indicated that the fixed-effects specification with Driscoll and Kraay robust standard errors provided the most appropriate estimator for the panel dataset, thereby addressing potential heteroskedasticity, serial correlation, and cross-sectional dependence. Consequently, all hypotheses were evaluated using this estimation method.

Table 6 reports the direct effect estimation results. The regression results indicate that profitability exerts a positive and statistically significant effect on financial sustainability ($\beta = 2.7124$; $t = 5.43$; $p = 0.006$), supporting H_1 . Among the control variables, firm size shows a negative and statistically significant relationship with financial sustainability ($\beta = -0.0806$; $p = 0.070$ at the 10% level), while operating cash flow does not exhibit a significant effect ($p = 0.713$). Overall, the findings indicate that firms with higher profitability tend to achieve stronger, long-term financial sustainability.

Table 6. Direct effect of profitability on financial sustainability (H1)

Variables	Coefficient (β)	t-value	p-value	Desicion
ROA	2.7124	5.43	0.006	Supported
UP	-0.0806	-2.46	0.070†	
CFO	0.0370	0.40	0.713	
Constant	3.2979	5.17	0.007	
F-statistic	59.03	59.03	59.03	59.03
Prob > F	0.0008	0.0008	0.0008	0.0008
Within R ²	0.0644	0.0644	0.0644	0.0644

The empirical model was developed to examine the determinants of financial sustainability. The regression specification incorporates profitability, audit committee characteristics, firm size, and operating cash flow as explanatory variables. The model is expressed as follows in Formula 1.

$$FS_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 AC_{it} + \beta_3 UP_{it} + \beta_4 CFO_{it} + \varepsilon_{it} \quad (1)$$

To examine the effect of profitability on audit committee characteristics, this study employs a simple regression model based on the agency theory framework (Jensen & Meckling, 1976). The empirical model is formulated in Formula 2.

$$AC_{it} = \beta_0 + \beta_1 ROA_{it} + \varepsilon_{it} \quad (2)$$

Table 7. Mediation Analysis of Agency Cost (H_2 , H_3 , H_4)

Panel A. Regression Results for Mediation					
	Relationship	β	t / z	p-value	Decision
H_2	Profitability (ROA) $\rightarrow$ Agency Cost (AC)	-0.3317	-5.38	0.006	Supported
H_3	Agency Cost (AC) $\rightarrow$ Financial Sustainability (FS)	-0.9765	-8.91	0.001	Supported
Panel B. Delta Method Mediation Test					
Effect		Estimate	z-value	p-value	Interpretation
Indirect Effect ($a \times b$)		0.2027	5.38	0.000	Significant
Total Effect		3.5803	7.13	0.000	Significant
Mediation Proportion		5.66%	3.48	0.001	Significant

Table 7 shows the mediation analysis conducted in three sequential stages. First, Profitability significantly reduced agency costs, as indicated by the negative coefficient of ROA on AC ($\beta = -0.3317$; $t = -5.38$; $p = 0.006$), thereby supporting Hypothesis 2. Second, Agency Cost exhibited a significant negative effect on Financial Sustainability ($\beta = -0.9765$; $t = -8.91$; $p = 0.001$), confirming Hypothesis 3. Third, the mediation effect was evaluated using the Delta Method. The indirect effect of profitability on financial sustainability through agency costs was positive and statistically significant (indirect effect = 0.2027; $z = 5.38$; $p < 0.001$). The total effect remained significant ($\beta = 3.5803$; $p < 0.001$), and the mediation proportion was 5.66% and statistically significant ($p = 0.001$). These findings demonstrate that agency costs partially mediate the relationship between profitability and financial sustainability. Accordingly, Hypothesis 4 is supported.

Finally, Table 8 examines the moderating role of agency cost by incorporating the interaction term between profitability and agency cost into the fixed-effects regression model. The results indicate that the interaction coefficient (ROA $\times$ AC) is statistically insignificant ($\beta = -0.0798$; $t = -0.06$; $p = 0.955$), despite the main effects of profitability ($\beta = 3.3988$; $p = 0.010$) and agency costs ($\beta = -0.5938$; $p = 0.003$) remaining statistically significant. Therefore, agency costs do not significantly alter the strength of the relationship between profitability and financial sustainability. Consequently, Hypothesis 5 is not supported, indicating that Agency Cost functions as a mediating mechanism rather than a moderating condition within the proposed research model.

Table 8. Moderation analysis of agency cost (H_5)

Variables	Coefficient (β)	t-value	p-value	Interpretation
ROA	3.3988	4.61	0.010	Significant
AC	-0.5939	-6.24	0.003	Significant
ROA $\times$ AC	-0.0798	-0.06	0.955	Not Significant
UP	-0.0866	-2.61	0.060	Significant
CFO	0.0197	0.33	0.757	Not Significant
F-statistic	72.77	72.77	72.77	72.77
Prob > F	0.0005	0.0005	0.0005	0.0005
Within R ²	0.0689	0.0689	0.0689	0.0689

Overall, the statistical results demonstrate that four of the five proposed hypotheses were supported. Specifically, profitability positively affects financial sustainability (H_1), profitability negatively affects agency costs (H_2), agency costs negatively affect financial sustainability (H_3), and agency costs significantly mediate the relationship between profitability and financial sustainability (H_4). However, the moderating effect of agency costs was not supported (H_5). These findings suggest that agency costs primarily operate as a transmission mechanism through which profitability enhances long-term

financial sustainability, rather than as a boundary condition that strengthens or weakens this relationship. The moderation model examining the interaction between profitability and agency costs is presented in Formula 3.

$$FS_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 AC_{it} + \beta_3 (ROA_{it} \times AC_{it}) + \beta_4 UP_{it} + \beta_5 CFO_{it} + \varepsilon_{it} \quad (3)$$

4.2 Discussion

4.2.1 Profitability and Financial Sustainability

Profitability is positively associated with financial sustainability. The model's within R² is 0.0644, indicating that profitability and the included control variables explain approximately 6.44% of the within-firm variation in financial sustainability. Although the explanatory power is relatively low, this does not invalidate the statistically significant association between profitability and the financial sustainability. Rather, the low within R² suggests that substantial variation in financial sustainability may be attributable to other time-varying firm-specific, governance, industry, and macroeconomic factors not captured by the model. Accordingly, the findings should be interpreted as evidence of a significant association within the specified model, rather than as a comprehensive explanation of financial sustainability.

From an agency theory perspective, profitable firms have greater internally generated funds, which may provide managers with greater discretion in resource allocation. When agency conflicts are effectively controlled, these resources can be directed toward productive investments and long-term value creation rather than inefficient expenditures. Thus, agency-related efficiency may influence the extent to which profitability is reflected in stronger financial sustainability.

The Resource-Based View (RBV) provides a complementary explanation by emphasizing the importance of a firm's ability to effectively deploy and utilize internal resources. Profitability reflects a firm's capacity to generate economic returns from its resource base, whereas ROA specifically captures how efficiently total assets are transformed into earnings. The positive association between ROA and financial sustainability is consistent with the RBV perspective that effective resource utilization can strengthen a firm's capacity to maintain financial flexibility, support productive investment, and sustain operations over time.

Signaling theory provides further explanation. Consistent profitability may signal managerial competence and financial strength to investors and creditors, potentially supporting access to external financing and favorable financing conditions for the firm. However, profitability alone does not necessarily ensure financial sustainability, as stakeholders may also assess how efficiently firms manage and allocate their resources. Therefore, these three perspectives provide complementary explanations: Agency Theory highlights the role of managerial discipline and agency-related efficiency; RBV emphasizes the effective utilization of internal resources; and Signaling Theory highlights the informational value of profitability to external stakeholders.

Firm Size shows a negative and marginally significant association with financial sustainability, suggesting that the potential resource advantages of larger firms may be offset by greater organizational complexity and slower decision-making processes. Accordingly, firm size does not appear to be associated with financial sustainability as efficiently as profit generation.

However, these findings should be interpreted as associations rather than definitive causal effects. Given the observational design and reliance on secondary panel data, potential endogeneity, including reverse causality and omitted governance-related factors, cannot be completely ruled out in this study. Therefore, the observed relationships are interpreted as being consistent with the proposed theoretical mechanisms rather than as evidence of causal effects.

4.2.2 Profitability and Agency Cost

Profitability is negatively associated with agency costs, and this relationship can be interpreted through agency and signaling theories. From an agency theory perspective, agency costs arise from the potential divergence between managerial interests and shareholder objectives. Higher profitability may be associated with stronger managerial discipline and more effective resource allocation, reducing the scope for discretionary spending and the inefficient use of corporate resources. In this sense, the negative association suggests that more profitable firms may exhibit lower levels of agency-related inefficiency.

Consistent profitability may signal managerial competence and financial quality, creating incentives for firms to maintain efficient operations and control unnecessary administrative and operating expenditures. However, this interpretation does not imply that profitability necessarily causes agency costs to decline, as the observed relationship may also reflect differences in governance quality, managerial discipline, or other firm-specific characteristics.

This finding also provides an important qualification to the prior evidence. [Kalash \(2024\)](#) reports that abundant internal cash may increase agency costs, consistent with the free cash flow perspective in agency theory, whereby excess resources under weak governance can facilitate managerial overinvestment. Therefore, the negative association observed in the present study does not necessarily contradict this perspective; rather, it suggests that the relationship between profitability and agency costs may depend on the governance context and how effectively internally generated resources are controlled. [Tang and Jang \(2008\)](#) further indicate that organizational form alone does not consistently explain profitability, supporting the view that governance and managerial practices may shape the translation of financial resources into organizational outcomes.

Overall, the findings are consistent with agency theory in suggesting that profitability is associated with lower agency-related inefficiency, while signaling theory suggests that sustained profitability may reinforce incentives to preserve credible signals of managerial and financial quality. However, these interpretations should be understood as associations rather than definitive causal relationships.

4.2.3 Agency Cost and Financial Sustainability

Agency costs are negatively associated with financial sustainability, indicating that higher agency-related inefficiency may be accompanied by a weaker capacity to maintain long-term financial resilience. From an agency theory perspective, resources allocated to discretionary administrative and operating expenditures may reduce the resources available for productive investment, risk management, and other activities that support sustainability in the long term. The magnitude of the coefficient further indicates that agency cost is an economically relevant factor in explaining the variation in financial sustainability within the sample, although its effect should not be interpreted as definitive evidence of causality.

Higher agency costs may be perceived as an indication of weaker governance quality, potentially affecting stakeholders' assessments of firms' financial prospects and access to external financing. Thus, agency-related inefficiency may be associated with financial sustainability through both internal resource allocation and external perceptions of governance quality. [Nasrawin et al. \(2025\)](#) and [Baxamusa and Jalal \(2024\)](#) similarly document the relationships between governance-related mechanisms and corporate outcomes, although their studies examine different channels, including board mechanisms and environmental regulation. Their findings provide broader support for the view that governance quality is relevant to a firm's long-term performance and sustainability.

The findings should also be interpreted in light of the differences in agency cost measurement. [Kalash \(2023\)](#) distinguishes between equity and debt agency costs, suggesting that debt-related monitoring may exert a disciplinary function, rather than simply representing a resource burden. In this study, agency cost is measured using operating expenses, which capture operating expenditure as an accounting-based indicator of potential agency-related inefficiency. This measurement approach differs from those that infer agency costs indirectly from ownership or financing structures and may

contribute to differences in the magnitude and interpretation of empirical relationships ([Mohd Ali et al., 2019](#)). Accordingly, the negative association between agency costs and financial sustainability is consistent with agency theory, while the signaling perspective suggests that agency-related inefficiency may also influence how external stakeholders evaluate firms' governance and financial quality.

4.2.4 The Mediating Role of Agency Cost in the Relationship between Profitability and Financial Sustainability

Agency cost significantly mediated the relationship between profitability and financial sustainability (indirect effect = 0.2027, $z = 5.38$, $p < 0.001$). However, the indirect effect accounted for only 5.66% of the total effect, indicating a statistically significant but relatively weak mediation effect in practical terms. This finding is consistent with agency theory, which suggests that profitability may be associated with lower agency-related inefficiency, while lower agency costs may, in turn, be associated with stronger financial sustainability. Thus, agency costs represent one transmission pathway through which profitability is associated with financial sustainability, but they do not constitute the dominant pathway.

The relatively small mediation proportion indicates that most of the observed profitability and financial sustainability associations operate through mechanisms not captured by the agency cost pathway examined in this study. These mechanisms may include resource utilization, financial flexibility, and external stakeholder perceptions, consistent with the RBV and signaling theory perspectives discussed above. However, these alternative pathways were not directly tested in the present mediation model and should therefore be regarded as theoretical possibilities, rather than established empirical mechanisms.

This finding is broadly consistent with [Ronoowah and Seetanah \(2024\)](#), who identified agency costs as a transmission mechanism in the relationship between capital structure and firm performance. However, the present study extends this literature by examining profitability as an antecedent and financial sustainability as an outcome. The significant indirect effect suggests that agency costs have a measurable mediating role, but their modest proportion indicates that their practical contribution to the overall relationship is limited. Accordingly, this finding is better characterized as weak partial mediation rather than a dominant mediating mechanism.

From a managerial perspective, the results suggest that improving profitability alone is not necessarily sufficient to strengthen financial sustainability through a reduction in agency costs. Governance and cost efficiency measures may complement profitability improvements, but the relatively small mediation proportion indicates that agency cost reduction should not be regarded as the primary channel through which profitability is associated with financial sustainability.

4.2.5 The Moderating Role of Agency Cost in the Relationship between Profitability and Financial Sustainability

Agency cost functions as a mediator rather than a moderator in this model, and this asymmetry represents its most theoretically significant finding. Whereas a mediating variable explains the mechanism through which an effect occurs, a moderating variable explains the conditions under which the effect strengthens or weakens. The empirical results confirm the former role but not the latter, indicating that the contribution of profitability to financial sustainability remains relatively stable, regardless of whether a firm's agency cost is high or low. One plausible explanation treats profitability as already encoding governance quality by the time it reaches the regression: a firm that manages to post strong, sustained earnings has, almost by construction, already cleared a baseline level of managerial discipline, which leaves little additional variance for agency costs to condition. Under this reading, the moderating power of agency costs is consumed upstream, inside profitability itself, rather than surviving as an independent interaction effect. Signaling theory offers a complementary account: a strong, credible profitability signal may simply dominate whatever secondary signal agency cost sends, which would flatten any interaction that the moderation test could detect. This finding contradicts [Pham and Nguyen \(2026\)](#), who find that agency costs significantly

weaken the investment-to-performance link, and [Kalash \(2024\)](#) equity-agency-cost interaction results. This gap is likely due to what sits on the other side of the interaction term. Investment decisions and cash holdings are discretionary choices that managers make in the moment, exactly where agency conflict has room to bite, while profitability is a realized outcome that already reflects whatever managerial efficiency produced it. Agency costs, in other words, may condition discretionary financial choices without conditioning the payoff from results firms have already achieved ([Yehia & Swei, 2020](#)).

These five results draw a coherent picture that defines the boundary conditions of this study. Agency costs operate as a transmission channel and direct constraint but not as a mechanism that amplifies or weakens profitability's contribution to financial sustainability. This pattern may depend on the specific proxy and outcome constructs applied. AC captures discretionary operating expenditure directly, whereas studies using ownership concentration, excess cash, or financing structure as agency cost proxies examine different dimensions of agency problems and may therefore produce different conclusions, including the moderating effects reported by [Pham and Nguyen \(2026\)](#) and [Kalash \(2024\)](#). Previous evidence shows that governance structures and monitoring mechanisms determine how effectively firms control managerial discretion and agency problems ([Muhaimin, Arman, Wahid, Putriani, & Yunus, 2025](#); [Sudarmanto, Jati, Kaswoto, Arum, & Rahman, 2026](#)). The financial sustainability construct adopted from [Gleißner, Günther, and Walkshäusl \(2022\)](#), which incorporates growth, survival probability, earnings risk, and value creation, provides a broader assessment than conventional performance measures such as ROA or Tobin's Q. This broader perspective may explain why profitability has a strong direct effect in this study. [Bobinaite \(2015\)](#) warns that profitability alone cannot fully explain long-term financial outcomes, and the present findings support this view because firm size, agency costs, and other firm-specific factors continue to contribute to sustainability outcomes. Similar evidence suggests that governance quality and internal control mechanisms influence how firms transform financial resources into long-term performance ([Antonius & Tampubolon, 2019](#)). [Santosa \(2020\)](#) further argues that profitability affects sustainable outcomes through multiple financial and governance channels, consistent with the agency cost pathway identified in this study.

For corporate managers, the findings indicate that improving profitability remains essential for strengthening financial sustainability, while agency costs should be managed through effective governance practices rather than being viewed as a factor that changes the profitability effect. For investors, profitability remains a reliable indicator of long-term sustainability, whereas agency costs should be evaluated as an independent governance concern. This interpretation aligns with evidence that ownership monitoring and governance mechanisms can strengthen accountability but do not always eliminate managerial discretion ([Muhaimin et al., 2025](#); [Sudarmanto et al., 2026](#)). From a regulatory perspective, strengthening disclosure quality, board accountability, and governance standards is important because these mechanisms directly reduce agency problems. Theoretically, this study extends Agency Theory by demonstrating that agency costs do not universally function as moderators but may operate primarily as transmission mechanisms depending on the financial relationship examined. The findings also reinforce Signaling Theory by showing that profitability continues to provide a credible signal of long-term financial sustainability despite differences in agency cost levels. Therefore, in emerging ASEAN capital markets, agency costs are better interpreted as a mechanism that explains how profitability influences sustainability rather than as a boundary condition that determines whether profitability creates value.

5. Conclusions

5.1 Conclusion

This study examines the effect of profitability on financial sustainability by investigating the dual role of agency cost as both a mediating and moderating variable using panel data from publicly listed non-financial companies in Indonesia, Malaysia, and the Philippines. The findings demonstrate that profitability constitutes an important determinant of long-term financial sustainability, indicating that firms with stronger earnings-generating capabilities are better positioned to maintain sustainable

growth, preserve financial resilience, and create long-term economic value. Moreover, profitability reduces agency costs, while agency costs exert a negative influence on financial sustainability. These findings suggest that managerial efficiency plays an important role in translating corporate financial performance into sustainable financial outcomes.

A major contribution of this study lies in demonstrating that agency cost primarily functions as a mediating mechanism rather than a moderating condition in the relationship between profitability and financial sustainability. The findings indicate that profitability enhances financial sustainability indirectly by reducing managerial inefficiencies and improving organizational resource allocation. However, agency costs do not significantly alter the strength of the relationship between profitability and financial sustainability, implying that profitability remains an important driver of financial sustainability, regardless of variations in agency costs. This evidence extends the application of Agency Theory by highlighting that agency cost explains how profitability contributes to long-term financial sustainability rather than when this relationship becomes stronger or weaker. Simultaneously, the findings reinforce Signaling Theory by suggesting that sustained profitability conveys credible information regarding managerial quality and organizational efficiency, thereby strengthening firms' long-term financial resilience.

Beyond its theoretical contribution, this study provides important empirical evidence from emerging ASEAN capital markets during the post-pandemic recovery period. By employing a multidimensional financial sustainability framework rather than relying solely on conventional accounting performance measures, this study offers a broader understanding of corporate financial resilience under conditions of increasing economic uncertainty. Consequently, this study contributes to the growing literature on financial sustainability by integrating profitability, governance efficiency, and agency cost into a unified analytical framework while providing practical insights for managers, investors, and policymakers seeking to strengthen firms' long-term financial sustainability in developing economies.

5.2 Research Limitations

Several limitations should be acknowledged when interpreting the findings of this study. First, the analysis is limited to publicly listed non-financial firms in Indonesia, Malaysia, and the Philippines during 2020–2024, which may constrain the generalizability of the findings to other institutional settings and economic cycles. Second, the exclusion of persistently loss-making firms substantially reduced the initial population and may have introduced survivorship bias, as the final sample may overrepresent financially stable and resilient firms. Therefore, the findings should be interpreted cautiously when generalizing them to the broader population of firms, including financially distressed companies. Third, the study relies on secondary financial data and measures agency costs using a single accounting-based proxy. This measure may not fully capture the multidimensional nature of agency conflicts, including the qualitative aspects of governance, managerial behavior, and board effectiveness. Fourth, the relatively low explanatory power of the regression models indicates that other firm-specific, governance, and macroeconomic factors not included in the model may also contribute to variations in financial sustainability. Finally, because this study uses observational panel data, potential endogeneity, including reverse causality and omitted variable bias, cannot be completely ruled out.

5.3 Suggestions and Directions for Future Research

Future research could address these limitations by employing multiple agency cost measures, extending the observation period and sample across additional countries and economic cycles, and testing the robustness of the mediation results using alternative approaches, such as the Sobel method. Future studies could also employ stronger identification strategies, such as system GMM or instrumental variable approaches, to address potential endogeneity and provide more robust evidence regarding the relationships among profitability, agency cost, and financial sustainability.

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Author Contributions

ND contributed to conceptualization, research design, methodology, data analysis, and manuscript preparation. FF contributed to the theoretical development, literature review, validation, and critical revision of the manuscript. IR contributed to the data interpretation, discussion development, and manuscript review. All the authors have read and approved the final version of the manuscript.

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