American International Journal of Business Management (AIJBM)
*ISSN- 2379-106X, **www.aijbm.com** Volume 07, Issue 07 (**July-2024**), PP 323-328*

The Effect of Corporate Governance on Financial Performance with Sustainability Reporting as a Mediating Variable

Nina Yudisia Mariati[1], Tertiarto Wahyudi[2], Ika Sasti Ferina[3]
[1234]Master of Economisc, Sriwijaya University, Indonesia
**Corresponding Author: Nina Yudisia Mariati[1]*

ABSTRACT*:* *This study aims to analyze and apply the influence of corporate governance and sustainability on financial performance and analyze and apply the influence of corporate governance on financial performance mediated by sustainability reports. The population in this study were all companies listed on the Indonesia Stock Exchange with a sample using purposive sampling, so that a sample of 43 companies was obtained. The analysis technique uses a path analysis model with the Eviews application. The results showed that corporate governance proxied by managerial ownership, board of commissioners, institutional ownership has a positive and significant effect on sustainability reporting. While corporate governance proxied by the background of the board of commissioners and the number of meetings of the board of commissioners has no effect on sustainability reporting. Sustainability reporting has no effect on financial performance. Sustainability report is not able to mediate the influence of corporate governance (managerial ownership, independent board of commissioners, institutional ownership, background of the board of commissioners and board of commissioners) on financial performance.*

KEYWORDS – *Corporate Governance, Sustainability Reporting, Financial Performance*

I. INTRODUCTION

The company's financial performance is one of the assessments of investors to buy shares and financial performance is positive for investors. Investors will have a desire to invest in companies with high levels of profitability and disclose aspects of economic, social, and environmental performance in sustainability reports (Maryanti & Fithri, 2017).

The disclosure of sustainability reports has many benefits, including the company becoming more concerned about society and the environment so that it can provide value added, improve the company's positive image, reduce risks that can have a detrimental impact on the company, and can increase the trust of investors and other stakeholders (Rofelawaty & Ridhawati, 2016). Disclosure of sustainability reports also affects firm value. This means that the quality of annual reports, especially sustainability reports, has a positive influence on the company's market performance (Fatchan & Trisnawati, 2016). Disclosure of sustainability reports can also be a consideration for investors in investing, as well as a form of investors in maintaining their economic sustainability at the local, national and global levels (Kurniawan et al., 2018).

Companies that have carried out economic, social and environmental responsibilities which are then presented in the form of reports, the company has carried out the concept of sustainability development. The report process as the company's accountability to stakeholders by presenting economic, social, and environmental information shows the sustainability of the company's development. The reporting is called a sustainability report. Sustainability report is an application and principle of good corporate governance (Muhammadinah, 2016).

The board of commissioners is a party that has an important role in providing reliable financial reports. So that theoretically the existence of this board will have an influence on the quality of financial statements and be used as a measure of the level of engineering by management. Furthermore, an independent board of commissioners generally has better supervision of management, thus influencing the possibility of fraud in presenting financial statements by management. The number of board of commissioners meetings also has an influence on financial performance. In the meeting the board of commissioners can exchange ideas and plan strategies in company operations. The background of the commissioners has an impact on the company's financial performance, although it is not a requirement for someone to have an education that enters the business world. Commissioners who have a financial education base will be more familiar with how to achieve a good result and can avoid the practice of producing management, therefore the knowledge and background of the board of commissioners in finance can improve their ability in financial performance.

Research from Gaol & Noviyanti, (2022) shows that corporate governance proxied by the board of directors, independent commissioners, and audit committee has no effect on financial performance, while disclosure of sustainability reports affects financial performance. Fathonah & Wijayati, (2018) the results of his research show that the board of commissioners and family ownership have a negative effect on the disclosure of sustainability reporting in a group of business companies in Indonesia. Meanwhile, the results of the audit committee variable, foreign ownership, institutional ownership, and profitability do not affect the disclosure of sustainability reporting in the Indonesian group of business companies.

This study adds the variable of sustainability report disclosure as a moderating variable because it is to find out whether the implementation of good sustainability reporting will strengthen or weaken the influence of corporate governance on the company's financial performance in a comprehensive framework. Where accountants in Indonesia have also realized that the importance of preparing a sustainability report because in it there are principles and disclosure standards that are able to reflect the level of company activity as a whole and of course different from those disclosed in the financial statements.

This study aims to analyze and apply the influence of corporate governance on sustainability reports. Analyze and apply the influence of sustainability reports on financial performance and analyze and apply the influence of corporate governance on financial performance mediated by sustainability reports.

II. LITERATURE REVIEW

2.1. Corporate Governance

According to the National Committee on Governance Policy, (2016), *corporate governance* is a process and structure used by company organs to provide added value to the company on an ongoing basis in the long term for shareholders, while taking into account the interests of other *stakeholders*, based on applicable laws and norms. According to Munawir, (2012) there are generally three forms of financial statements produced by a company, namely the balance sheet, income statement and capital growth report. Corporate Governance structure is the organs of the company that have an important role in implementing good corporate governance. The Corporate Governance structure in this study includes the main organs, namely managerial ownership, independent board of commissioners, institutional ownership, commissioners' educational background, and the number of meetings of the board of commissioners.

2.2. Sustainability Report

According to Elkington, (1997) sustainability report means that the report not only contains financial performance information but also non-financial information consisting of social and environmental information that allows the company to grow sustainably. Elkington, (1997) says that sustainability is the continuity between people, planet, and profit known as the Triple Bottom Line (TBL) concept. Companies must be responsible for economic, social and environmental aspects.

2.2.1. Kinerja Keuangan

Company performance is the company's ability to explain its operational activities (Jewell & Mankin, 2011). Company performance is an important thing that must be achieved by every company everywhere, because performance is a reflection of the company's ability to manage and allocate its resources.

Based on existing theory and supported by previous research, the hypotheses in this study are:

H1 : Corporate governance affects sustainability report

H2 : Sustainability report affects financial performance

H3 *:* Corporate governance affects financial performance mediated by sustainability reports

III. METHOD

The population of this study are all companies listed on the Indonesia Stock Exchange for the period 2019 - 2023. The sampling technique uses purposive sampling, which is a technique in determining a sample from a population with certain criteria (Sugiyono, 2018). Based on this, a sample of 43 companies listed on the Indonesia Stock Exchange was obtained.

The data analysis technique in this study uses path analysis, where data processing uses the Eviews application. Hypothesis testing using the t test and for path analysis testing using the sobelt test.

IV. FIGURES AND TABLES

4.1. The Effect of Corporate Governance on Sustainability Report

4.1.1. Chow Test

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.278689	(7.17)	0.0784
Cross-section Chi-square	19.854032	7	0.0059

Based on the Chow Test results, it shows that the *cross-section Chi-square* probability value is 0.0059 <0.05, which means that the best model used is the *Fixed Effect Model* (FEM).

4.1.2. Hausman Test

Table 2. Hausman Test

Test Summary	Chi-Sq Statistic	Chi-Sq d.f.	Prob.
Cross-section Random	2.607430	5	0.7602

Based on the Hausman Test results, it shows that the *random cross-section* probability value is 0.7602> 0.05, which means that the best model used is the *Random Effect Model* (REM). Then we continue with the Lagrange multiplier test to determine whether we choose the *Common Effect Model* (CEM) or the *Random Effect Model* (REM).

4.1.3. Lagrange Multiplier Test

Table 3. Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.255663 (0.6131)	0.257526 (0.6118)	0.513189 (0.4738)
Honda	0.505632 (0.3066)	0.507470 (0.3059)	0.716371 (0.2369)
King-Wu	0.505632 (0.3066)	0.507470 (0.3059)	0.712650 (0.2380)
Standardized Honda	2.212949 (0.0135)	0.731984 (0.2321)	-1.400319 (0.9193)
Standardized King-Wu	2.212949 (0.0135)	0.731984 (0.2321)	-1.377139 (0.9158)
Gourieroux, et al.	-	-	0.513189 (0.4303)

Based on the results of the Lagrange multiplier test, it is known that the Breusch-Pagan P value is 0.6131> 0.05, which means that the best model used is the Common Effect Model (CEM).

4.1.4. Common Effect Model Regression Model

Tabel 4. Common Effect Model Test Result

Dependent Variable: Sustainability Report
Method Panel Least Squares
Sample: 2019 2023
Periods included: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	267.9510	52.51213	5.102651	0.0000
Managerial Performance	-2.758409	1.186334	-2.325155	0.0288
Independent Board of Commissioners	-23.34646	9.338076	-2.500136	0.0196
Institutional Ownership	-30.58569	13.29880	-2.299884	0.0305
Educational Background of the Board of Commissioners	0.030899	0.111223	0.277807	0.7835
Number of Board of Commissioners Meetings	-5.188230	5.244036	-0.989358	0.3324
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.464274	Mean dependent var		53.46876
Adjusted R-squared	0.352665	S.D. dependent var		15.12044
S.E. of regression	12.16547	Akaike info criterion		8.011937
Sum square resid	3551.970	Schwarz criterion		8.292177
Log likelihood	-114.1791	Hannan-Quinn criter		8.101588
F-statistic	4.159811	Durbin-Watson stat		0.982441
Prob(F-statistic)	0.007299			

Table 4 explains the effect of corporate governance proxied by Managerial Performance, Independent Board of Commissioners, Institutional Ownership, Educational Background of the Board of Commissioners and Number of Board of Commissioners Meetings on Sustainability Report.

The Managerial Performance variable has a t-statistic value of 2.325155> t table 2.1603 and a probability value of 0.0288 <0.05, which means that the hypothesis is accepted. This shows that the Managerial Performance variable has a significant effect on the Sustainability Report.

The Independent Board of Commissioners variable has a t-statistic value of 2.500136> t table 2.1603 and a probability value of 0.0196 <0.05, which means that the hypothesis is accepted. This shows that the Independent Board of Commissioners variable has a significant effect on the Sustainability Report.

The Institutional Ownership variable has a t-statistic value of 2.99884> t table 2.1603 and a probability value of 0.0305 <0.05, which means that the hypothesis is accepted. This shows that the Institutional Ownership variable has a significant effect on the Sustainability Report.

The Board of Commissioners Educational Background variable has a t-statistic value of 0.277807 < t table 2.1603 and a probability value of 0.7835 > 0.05, which means that the hypothesis is rejected. This shows that the Board of Commissioners Educational Background variable has no significant effect on the Sustainability Report.

The variable Number of Board of Commissioners Meetings has a t-statistic value of 0.989358 < t table 2.1603 and a probability value of 0.3324 > 0.05, which means that the hypothesis is rejected. This shows that the variable Number of Board of Commissioners Meetings has no significant effect on the Sustainability Report.

4.2. The Effect of Sustainability Report on Financial Performance

4.2.1. Chow Test

Table 5. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.953229	(7.16)	0.0015
Cross-section Chi-square	38.465804	7	0.0000

Based on the Chow Test results, it shows that the *cross-section Chi-square* probability value is 0.0000 <0.05, which means that the best model used is the *Fixed Effect Model* (FEM).

4.2.2. Hausman Test

Table 6. Hausman Test

Test Summary	Chi-Sq Statistic	Chi-Sq d.f.	Prob.
Cross-section Random	13.774515	6	0.0323

Based on the Hausman Test results, it shows that the cross-section random probability value is 0.0323 <0.05, which means that the best model used is the Fixed Effect Model (FEM). Because the Chow Test and Hausman Test show that the best model is the Fixed Effect Model (FEM), no Lagrange multiplier testing is required.

4.2.3. Fixed Effect Model (FEM) Regression Model

Table 7. Fixed Effect Model (FEM) Test Result

Dependent Variable: Kinerja Keuangan
Method Panel Least Squares
Sample: 2019 2023
Periods included: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.894430	0.389475	-2.296501	0.0355
Sustainability Report	-0.000118	0.000882	-0.133608	0.8954
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.741941	Mean dependent var		0.095428
Adjusted R-squared	0.530637	S.D. dependent var		0.053872
S.E. of regression	0.036908	Akaike info criterion		-3.456058
Sum square resid	0.021795	Schwarz criterion		-2.802166
Log likelihood	65.84087	Hannan-Quinn criter		-3.246872
F-statistic	3.521987	Durbin-Watson stat		2.717452
Prob(F-statistic)	0.009683			

Based on the statistical test results as presented in table 3, it is known that the probability value of the Sustainability Report variable is 0.8964> 0.05, which means that the hypothesis is rejected. This shows that the Sustainability Report variable has no effect on Financial Performance.

4.3. The Effect of Corporate Governance on Financial Performance Through Sustainability Report

Table 8. Sobel Test

Variabel	t count	t table	Description
Managerial Performance * Sustainability Report → Financial Performance	0.9639	2.1603	Hypothesis Rejected
Independent Board of Commissioners * Sustainability Report → Financial Performance	0.9266	2.1603	Hypothesis Rejected
Institutional Ownership * Sustainability Report → Financial Performance	0.9460	2.1603	Hypothesis Rejected
Educational Background of Board of Commissioners * Sustainability Report → Financial Performance	-4.4685	2.1603	Hypothesis Rejected
Number of Board of Commissioners Meetings * Sustainability Report → Financial Performance	-0.7675	2.1603	Hypothesis Rejected

Table 8 explains the effect of corporate governance proxied by Managerial Performance, Independent Board of Commissioners, Institutional Ownership, Educational Background of the Board of Commissioners and Number of Board of Commissioners Meetings on Financial Performance through Sustainability Report.

The Managerial Performance variable through the Sustainability Report has a t value of 0.9639 < 2.1603 which means that the hypothesis is rejected. This shows that the Sustainability Report variable is unable to mediate the effect of Managerial Performance on Financial Performance.

The Independent Board of Commissioners variable through the Sustainability Report has a t value of 0.9266 < 2.1603, which means that the hypothesis is rejected. This shows that the Sustainability Report variable is unable to mediate the influence of the Independent Board of Commissioners on Financial Performance.

The Institutional Ownership variable through the Sustainability Report has a t value of 0.9460 < 2.1603 which means that the hypothesis is rejected. This shows that the Sustainability Report variable is unable to mediate the effect of Institutional Ownership on Financial Performance.

The Board of Commissioners Educational Background variable through the Sustainability Report has a t value of -4.4685 < -2.1603, which means that the hypothesis is rejected. This shows that the Sustainability Report variable is unable to mediate the effect of the Board of Commissioners' Educational Background on Financial Performance.

The variable number of meetings of the Board of Commissioners through the Sustainability Report has a t value of 0.7675 < 2.1603, which means that the hypothesis is rejected. This shows that the Sustainability Report variable is unable to mediate the effect of the Number of Board of Commissioners Meetings on Financial Performance.

V. CONCLUSION

This study concluded that Corporate Governance proxied by Managerial Ownership, Independent Board of Commissioners, and Institutional Ownership has a significant effect on Sustainability Report. Meanwhile, Corporate Governance proxied by the Educational Background of the Board of Commissioners and the Number of Board of Commissioners Meetings has no significant effect on the Sustainability Report. Sustainability Report has a significant effect on financial performance. Sustainability Report is not able to mediate the influence of Corporate Governance proxied by Managerial Ownership, Independent Board of Commissioners, Institutional Ownership, Educational Background of the Board of Commissioners and Number of Board of Commissioners Meetings on Financial Performance.

This research is only limited to Financial Performance which is influenced by Corporate Governance, therefore for further research using other variables that are considered to affect the Company's Financial Performance. In addition, the limitations in the 2019 - 2023 research year, further research should increase the research observation period so that it is expected to get more accurate results.

REFERENCES

[1]. Elkington, J. (1997). *Cannibals with Forks: The Triple Bottom Line of 21st Century Business.* Capstone.

[2]. Fatchan, I. N., & Trisnawati, R. (2016). The Effect of Good Corporate Governance on the Relationship Between Sustainability Report and Firm Value (Empirical Study of Go Public Companies in Indonesia 2014-2015 Period). *Riset Akuntansi Dan Keuangan Indonesia*, *1*(1), 25–34.

[3]. Fathonah, D. S., & Wijayati, F. L. (2018). Corporate Governance Mechanisms and Firm Value. *Jurnal Daya Saing*, *4*(3), 360–364. https://doi.org/10.35446/dayasaing.v4i3.253

[4]. Gaol, A. M. L., & Noviyanti, S. (2022). The Effect of Corporate Governance and Sustainability Report Disclosure on Financial Performance. *COSTING:Journal of Economic, Business and Accounting*, *5*(2),

772–785.
[5]. Jewell, & Mankin. (2011). What Is Your Roa ? an Investigation of the Many Formulas for Calculating Return on Assets. *Academy of Educational Leadership Journal*, *15*(1980), 79–91.
[6]. Kurniawan, T., Sofyani, H., & Rahmawati, E. (2018). Sustainability Disclosure Report and Firm Value: An Empirical Study in Indonesia and Singapore. *Jurnal Ilmiah Akuntansi*, *16*(1), 1–20.
[7]. Maryanti, E., & Fithri, W. N. (2017). Corporate Social Responsibilty, Good Corporate Governance, Environmental Performance on Financial Performance and Its Effect on Firm Value. *Journal of Accounting Science*, *1*(1), 21. https://doi.org/DOI:10.21070/jas.v1i1.773
[8]. Muhammadinah. (2016). The Effect of Profitability, Financial Risk, Company Size, Growth, Managerial Ownership Structure and Dividend Payout Ratio on Earnings Management in Banking Sector Companies Listed on the Indonesia Stock Exchange. *I-Finance: A Research Journal on Islamic Finance*, *2*(1), 35–54.
[9]. Munawir. (2012). *Financial Statement Analysis*. liberty.
[10]. National Committee on Governance Policy. (2016). *General Guidelines for Good Corporate Governance*.
[11]. Rofelawaty, B., & Ridhawati, R. (2016). Analysing the Possibility of Implementing Sustainability Report as Annual Report in Higher Education Institutions. *Dinamika Ekonomi: Jurnal Ekonomi Dan Bisnis*, *9*(2), 231–251.
[12]. Sugiyono. (2018). Educational Research Methods Quantitative, Qualitative, and R&D Approaches. In *Alfabeta* (Bandung). Alfabeta.

Corresponding Author: Nina Yudisia Mariati[1]
[1]*Magister Ilmu Ekonomi, Sriwijaya University, Indonesia*