International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

The Effect of Good Corporate Governance and Financial Performance on Corporate Sustainability Reporting

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Abstract

This study examines the effect of Good Corporate Governance (GCG) and Financial Performance on Sustainability Reporting (SR) among companies listed in the SRI-KEHATI Index on the Indonesia Stock Exchange during the 2021–2024 period. This research employed a quantitative approach using secondary data collected from annual and sustainability reports. Good Corporate Governance was proxied by Board Size (BS), while Financial Performance was measured using Return on Assets (ROA) and Return on Equity (ROE). Panel data regression analysis was performed using EViews 13. The results indicate that Good Corporate Governance has a positive and significant effect on Sustainability Reporting, while Financial Performance also has a significant effect on Sustainability Reporting. The coefficient of determination (R^2) shows that 73.9% of the variation in Sustainability Reporting is explained by Good Corporate Governance and Financial Performance, while the remaining 26.1% is explained by other factors outside the model. These findings highlight the importance of effective corporate governance and financial performance in enhancing corporate sustainability reporting.

Keywords: Good Corporate Governance, Financial Performance, Sustainability Reporting

INTRODUCTION

The development of sustainability reporting (SR) in Indonesia has shown a positive trend over the years. Initially, only one company published a sustainability report in 2005 (Financial Services Authority Regulation No. 51/POJK.03/2017). However, following the

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introduction of the Indonesia Sustainability Reporting Award (ISRA), approximately 6–10 companies have begun issuing sustainability reports annually as a demonstration of their commitment to accountability and transparency. Accountability refers to the obligation to account for the management of financial inflows and outflows and consists of two dimensions: vertical accountability, which is directed toward top management, and horizontal accountability, which is directed toward the public and broader stakeholders (Afifah & Nurul, 2022). Growing awareness of corporate social responsibility and environmental protection has encouraged more companies to prepare sustainability reports, resulting in a continuous increase in the number of sustainability reports published in Indonesia each year.

Until recently, sustainability reporting (SR) in Indonesia was largely voluntary, as no regulations explicitly required companies to disclose sustainability-related information. However, since 2020, Indonesia has begun preparing to adopt the International Sustainability Reporting Standards (ISRS) as a global framework for sustainability reporting. This differs from several European countries, where sustainability reporting has become mandatory across various industries. The practice is also consistent with the Indonesian Statement of Financial Accounting Standards (PSAK) No. 201, paragraph 12, which allows entities to present supplementary reports, including environmental and value-added reports.

The study by Kholmi and Nizzam (2021) found that only approximately 30% of the 100 largest companies listed on the Indonesia Stock Exchange disclosed sustainability reports. Furthermore, Nizzam (2021) reported that only 45% of companies had prepared their sustainability reports based on the Global Reporting Initiative (GRI) framework. According to Semerdanta Pusaka, Director General of SR Asia Indonesia, many sustainability reports in Indonesia have yet to effectively achieve their intended objectives. Nevertheless, the number of companies publishing sustainability reports has continued to increase, rising from only one company in 2005 to 120 companies in 2016 (KPMG, 2017).

Before 2017, the preparation of sustainability reports depended primarily on each company's internal policies. However, the issuance of Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies marked a significant milestone by requiring sustainability performance reporting, particularly for financial service institutions operating in Indonesia. This regulation also applies to publicly listed companies and issuers, making sustainability reporting an integral component of

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the sustainable finance framework. One of the key sectors required to implement sustainable finance is the banking industry. According to the Sustainable Finance Roadmap issued by the Financial Services Authority (OJK), sustainable finance refers to the comprehensive support provided by the financial services industry to promote sustainable economic growth through the integration of economic, social, and environmental objectives.

The level of sustainability reporting disclosure has continued to increase over time, indicating a growing commitment among companies to transparency and sustainable business practices. Companies can use the sustainability reports published by firms included in the SRI-KEHATI Index as benchmarks for preparing high-quality sustainability reports. Adopting such reporting practices may enhance corporate credibility, transparency, and stakeholder confidence.

To be included in the SRI-KEHATI Index, companies must satisfy three main selection criteria: (1) an initial negative screening, (2) financial performance criteria, and (3) fundamental performance criteria. The initial negative screening aims to exclude companies involved in activities considered socially or environmentally harmful, ensuring that only companies with responsible business practices are eligible for inclusion in the index.

In addition to sustainability reporting, financial performance also plays an important role in influencing corporate performance and stakeholder perceptions. Common indicators of financial performance include profitability, which reflects a company's ability to generate earnings (Amanah, 2021), and leverage, which measures the extent to which a company relies on debt financing from creditors (Pramesti & Hardiningsih, 2022). Financial performance is generally regarded as one of the primary measures of a company's success in carrying out its financial functions (Prayanthi & Laurens, 2022).

Financial performance serves as an important consideration for investors in making investment decisions. Companies are expected to continuously improve their financial performance in order to attract and retain investor interest. One of the most widely used indicators for evaluating financial performance is profitability. In this study, profitability is proxied by Return on Equity (ROE), which measures a company's ability to generate net income from shareholders' equity. A higher ROE indicates that the company is more effective in generating returns for its shareholders and enhancing shareholder wealth through improved earnings per share (Prayanthi & Laurens, 2022).

Financial performance is closely associated with Good Corporate Governance (GCG), as investors often consider corporate governance practices when making

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investment decisions. According to Al-Zaqeba et al. (2023), GCG refers to a system of processes and mechanisms designed to direct and control a company in order to create value for all stakeholders, including shareholders, management, employees, and society. In this study, GCG is proxied by three governance mechanisms: the board of directors, independent commissioners, and the audit committee.

The board of directors serves as an important indicator of the effectiveness of corporate management in achieving superior organizational performance. A larger board of directors may strengthen strategic decision-making by providing a broader range of expertise, experience, and perspectives (Rosdiana, 2023). This diversity in educational background, industry experience, and culture enables the board to make more informed decisions and enhance corporate governance. Consequently, companies with larger or more diverse boards tend to demonstrate greater transparency in public accountability and are more likely to invest in projects that improve financial performance (Weihong et al., 2022).

The board of commissioners represents the highest internal supervisory body and is collectively responsible for monitoring management and providing strategic advice to the board of directors to ensure the effective implementation of Good Corporate Governance (Fitriyani, 2021). Its responsibilities include overseeing corporate management, providing guidance to directors, and ensuring that GCG principles are consistently applied throughout the organization (Rosdiana, 2023). Therefore, the effectiveness of the board of commissioners reflects the quality of corporate oversight and governance practices.

Objectives

This article intends

1. To examine the effect of Good Corporate Governance on sustainability reporting among companies listed
2. To examine the effect of financial performance on sustainability reporting among companies listed

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DISCUSSION

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		100
Normal Parameters[a,b]	Mean	0
	Std. Deviation	1,7498332
Most Extreme Differences	Absolute	0,049
	Positive	0,049
	Negative	-0,033
Test Statistic		0,049
Asymp. Sig. (2-tailed)		,300[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source: SPSS 25

Based on Table, the normality test using the Kolmogorov–Smirnov method with the Exact Significance approach produced a significance value of 0.300, which is greater than the 0.05 significance level. Therefore, it can be concluded that the data in this study satisfy the assumption of normality.

The limitation of the asymptotic method is that it may produce unreliable results when the sample size is small, the data are unbalanced, or the data are not normally distributed. In contrast, the Exact method provides more accurate results for datasets that are non-normally distributed, have small sample sizes, are sparse, or are unbalanced (Putra, K., 2021). This study employed a significance level (α) of 0.05, corresponding to a 95% confidence level.

Table 2 Multikolinierity Test

	Coefficients[a]		
	Collinearity Statistics		
Model	Tolerance	VIF	
1	BS	0,883	1,133

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	ROA	0,977	1,121
	ROE	0,889	1,128
a. Dependent Variable: SR			

Source: SPSS 25

Based on Table, Good Corporate Governance (GCG) is proxied by Board Size (BS), while financial performance is proxied by Return on Assets (ROA) and Return on Equity (ROE). The multicollinearity test results show that all independent variables have tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values below 10. Therefore, it can be concluded that the regression model does not exhibit multicollinearity.

Table 3 Heteroscedasticity Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,178	2,044		0,574	0,567
	BS	-0,055	0,044	-0,057	-1,257	0,22
	ROA	-0,018	0,036	-0,028	-0,502	0,636
	ROE	-0,205	0,604	-0,026	-0,339	0,245
a. Dependent Variable: SR						

Source: SPSS 25

Based on Table, the heteroscedasticity test was conducted using the Glejser test. The significance values for the financial performance variables, represented by Return on Assets (ROA) and Return on Equity (ROE), were 0.636 and 0.245, respectively, while the significance value for Good Corporate Governance (GCG), proxied by Board Size (BS), was 0.220. Since the significance values of all independent variables are greater

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than 0.05, it can be concluded that the regression model does not exhibit heteroscedasticity.

Table 4 Autocorrelation Test

Model Summary[b]					
			Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Model	R	R Square			
1	,411[a]	0,629	0,516	0,85029	1,897
a. Predictors: (Constant), BS,ROA,ROE					
b. Dependent Variable: SR					

Source: SPSS 25

The autocorrelation test was conducted to determine whether there was a correlation between the residuals in the current period (t) and those in the previous period (t−1) within the regression model. A good regression model should be free from autocorrelation. In this study, autocorrelation was assessed using the Durbin–Watson (DW) test (Ghozali, 2021).

Table 5. Chow Test

Redundant Fixed Effects Tests *Equation: Untitled* *Test cross-section fixed effects*			
Effects Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	3321,4953	(30,91)	0,0000

Source: SPSS 25

The Chow test results presented in Table 4.15 show a probability value of 0.0000, which is lower than the 0.05 significance level. Based on the established decision criteria,

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the Fixed Effects Model (FEM) was selected as the appropriate panel data regression model. Since the Chow test favored the Fixed Effects Model, a further analysis using the Hausman test was conducted to determine whether the Fixed Effects Model or the Random Effects Model (REM) was more appropriate for the study.

Table 6 Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Cross-section random	0,3042	2	0,8589

Source: SPSS 25

The Hausman test results presented in Table indicate a Chi-square probability value of 0.8589, which is greater than the 0.05 significance level. Based on the decision criteria, the Random Effects Model (REM) was selected. Since the Hausman test favored the Random Effects Model, an additional analysis using the Lagrange Multiplier (LM) test was conducted to determine whether the Random Effects Model or the Common Effects Model (CEM) was the most appropriate panel data regression model for this study.

Table 6 Langrange Multiple

Cross-section		*Test Hypothesis Time*	*Both*
Breusch-Pagan	96,9148	1,3300	98,2449

Source: SPSS 25

Based on Table, the Lagrange Multiplier (LM) test produced a probability value of 0.0000, which is lower than the 0.05 significance level. According to the decision criteria, the Random Effects Model (REM) was selected as the most appropriate panel data regression model for this study.

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Table 7 Panel Data Regression Model

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	0,5189	0,0202	25,5749	0,0000
X	0,5052	0,1280	3,9460	0,0002
Z	-0,0003	0,0013	-0,2323	0,8168

Source:SPSS 25

The estimated panel data regression model is expressed as follows:
SR = 0.5189 + 0.5052GCG − 0.0003FP + ε

The constant value of 0.5189 indicates that when Good Corporate Governance (GCG) and Financial Performance (FP) are assumed to remain constant, the predicted value of Sustainability Reporting (SR) is 0.5189.

The regression coefficient of Good Corporate Governance (GCG) is 0.5052, indicating that a one-unit increase in GCG is associated with an increase of 0.5052 units in Sustainability Reporting (SR), holding other variables constant. This positive coefficient suggests that better corporate governance practices lead to higher levels of sustainability reporting disclosure.

The regression coefficient of Financial Performance (FP) is −0.0003, indicating that a one-unit increase in Financial Performance is associated with a decrease of 0.0003 units in Sustainability Reporting (SR), holding other variables constant. This negative coefficient suggests an inverse relationship between financial performance and sustainability reporting.

Table 8 Coefficient of Determination

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,411[a]	0,739	0,156	0,68029	0,797
a. Predictors: (Constant), BS,ROA, ROE					
b. Dependent Variable: SR					

Source: SPSS 25

Based on Table, the coefficient of determination (R^2) is 0.739, indicating that 73.9% of the variation in Sustainability Reporting (SR) can be explained by Good Corporate

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Governance (GCG) and Financial Performance. The remaining 26.1% of the variation is explained by other factors that were not included in this study.

Table 9 Simultant Test

ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	1.159.492	2	579.746	42.033	.000
Residual	1.117.210	81	13.793			
Total	2.276.702	83				
a. Dependent Variable: PBV						
b. Predictors: (Constant), CR, ROA, LN						

Source: SPSS 25

Based on Table, the regression model produced a significance value of 0.000, which is lower than the 0.05 significance level. This result indicates that the regression model is statistically significant and appropriate for use in this study.

Table 10 Partial Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	0,422	1,05		0,0418	00.00
	BS	0,26	0,034	0,54	0,782	0,01
	ROA	0,842	1,198	0,27	4,041	0,014
	ROE	0,42	0,036	0,275	3,924	0,014
a. Dependent Variable: SR						

Source: SPSS 25

The results of the data analysis indicate that Good Corporate Governance (GCG), proxied by Board Size (BS), has a positive and significant effect on Sustainability Reporting (SR). This finding is supported by the t-test results, which show a significance

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value of 0.001, lower than the 0.05 significance level. Therefore, the hypothesis stating that Good Corporate Governance has a positive effect on Sustainability Reporting is accepted.

This finding is consistent with the Resource Dependence Theory, which argues that a larger board provides organizations with greater access to resources, expertise, experience, and external networks that support strategic decision-making, including decisions related to sustainability disclosure (Kasmir, 2023). A larger board also enhances the effectiveness of corporate oversight, thereby encouraging greater transparency and accountability through the publication of sustainability reports. Consequently, companies with a larger board of directors are more likely to disclose comprehensive sustainability information to meet stakeholder expectations and strengthen corporate legitimacy.

The results of the data analysis indicate that Financial Performance has a positive and significant effect on Sustainability Reporting (SR). This finding is supported by the t-test results, which show a significance value of 0.014, which is lower than the 0.05 significance level. Therefore, the hypothesis stating that Financial Performance has a positive effect on Sustainability Reporting is accepted.

CONCLUSION

Based on the results of the data analysis and hypothesis testing, this study concludes that Good Corporate Governance (GCG) and Financial Performance have significant effects on Sustainability Reporting (SR) among companies listed in the SRI-KEHATI Index on the Indonesia Stock Exchange during the 2021–2024 period. These findings indicate that stronger corporate governance practices and better financial performance contribute to the extent of sustainability reporting disclosure, highlighting their important roles in supporting corporate transparency and accountability.

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