THE MODERATING EFFECT OF GOOD CORPORATE GOVERNANCE ON RELATIONSHIP BETWEEN SUSTAINABILITY REPORTING AND CORPORATE FINANCIAL PERFORMANCE

Khalis Hasan Yousif Al-Naser, University of Mosul
Sinan Zuhaih Mohammad Jameel, University of Mosul
Ali Malallah Alsendy, University of Mosul
Hosam Alden Riyadh, Universitas Muhammadiyah Yogyakarta

ABSTRACT

Up to date, financial performance is a crucial matter in any company over the world. At present, one method that can be utilized to enhance it is sustainability reporting. It is a report covering information of non-financial that comprises environmental, social, and economic performance. It is to develop sustainable corporate, a firm that focuses on profits and the surrounding environment and community. Besides, good corporate governance is needed to make efficient and effective sustainability reports. Therefore, The study aims to investigate and examines the sustainability report's impact on financial performance by observing each aspect and investigates to what extent good corporate governance can moderate that impact. To achieve this objective the authors used quantitative methodology and secondary data by utilized food and beverage firms listed on the Indonesian Stock Exchanges in 2016-2019 were used 59 companies. Also, the Moderated Regression Analysis was utilized to scrutinize the impact between variables. This research's findings exposed that environmental and social performance disclosure positively and significantly impacted financial performance. However, the disclosure of economic performance negatively and significantly impacted financial performance. Besides, good corporate governance debilitated the disclosure of economic and environmental performance's impact on financial performance. Good corporate governance also could not moderate the disclosure of social performance's impact on financial performance.

Keywords: Sustainability Reporting Quality, Financial Performance, Good Corporate Governance.

INTRODUCTION

Every organization strives to progress and survive in the long run. Consequently, a majority of the organizational managers understand that their organization belongs to a larger system which can directly or indirectly affect their operations. It highlights the fact that if these organizations wish to fulfill their objectives effectively, they must adapt themselves to the environment. The adaptation of the organizations (or firms) to their surrounding environment indicates a symbiotic or reciprocal relationship between these *"duos"*, which is characterized by the business-related system models. After taking into consideration the existing environmental crisis, it is stated that businesses need to offer more to their environments. The environments in which the businesses operate follow an unsustainable path. Currently, the world is affected by many environmental changes like health care, global warming, and poverty. This situation is similar to that described by Welford (1997), who mentioned the tangible

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

environmental crises (such as global food insecurity, water shortage, and a decrease in fish catches). According to some researchers Steg & Vlek (2009); Ezeabasili (2009), with an increase in the human population, the material consumption and the production technology would increase significantly, which could steadily decrease the quality and quantity of environmental resources.

It is noted that any transformation in the organization would improve this situation. The companies are more concerned about public opinion. They understand that any information related to sustainability, operational, and financial aspects is essential. The general people who are or wish to become investors in the company have a full right to know all the information regarding the company, as it would help them make better decisions. The people are more worried about the long-term rather than the short-term situation. These include the financial reports (which describe the historical situation) and the non-financial reports (that describe the future) of any company. The non-financial reports like those related to corporate governance and sustainability reporting present a framework that highlights the company's long-term plans and expresses concern regarding the existing situation.

The global financial crisis, climate change, and limited resources are a few examples showing that the company has many complex issues. Thus, the companies need to anticipate the global uncertainty and develop a long-term plan. They also need to implement good corporate governance. Besides, the social and economic trends are some environmental-based problems faced by the companies. In the 21st century, the world noted some major cases, like Enron and WorldCom. These were massive organizations with a good reputation; however, they did not implement good corporate governance when carrying out their business activities (Syakhroza, 2005; Diamastuti et al., 2021).

In fact, corporate governance can help any organization maintain a good process. It also includes elements that bind the organization. Furthermore, corporate governance helps any company acquire internal control and develop relationships with other entities like suppliers, banks, government, and customers. It also helps the organization develop a good relationship with the committee boards, management, investors, and employees. The organization can display a close connection with Corporate Social Responsibility (CSR), particularly in the traditional and modern concepts related to disclosure. In the past, the companies regarded their financial statements as an indicator of success. However, today, the companies have differing paradigms. The companies do not regard the stakeholders as only the shareholders, but they believe that the stakeholders can significantly influence the working in the company. According to the stakeholder theory, the companies regard the stakeholder as the major factor. These stakeholders include the suppliers, banks, customers, and the government.

In the past few years, the companies are becoming increasingly aware of the fact that they are responsible for the environmental and social effect of their actions on the communities as well as their stakeholders. Ekwueme (2011) stated that the bigger corporations, which were more concerned about their owners, have now started understanding their social responsibility. It indicates that the companies have to not only pay attention to maximising their shareholders' wealth but also carry out activities that can maximise the benefits which are accruing to the stakeholders

Today, the companies are expected to be very transparent with regards to their environmental and social treatments, in what manner they tackle the issues of corporate governance and deal with community as well as their employees. Epstein (2008) stated that the organisations are becoming very mindful of the issues of social and the concerns of stakeholders, and hence they are attempting to be good corporate citizens. They could be motivated due to different factors, like their concern towards the environment or society, stakeholder pressures, government regulation, or economic profit. It ultimately indicates that the managers need to make important changes for managing their social, economic, or environmental influences very effectively.

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

Similar to the above discussion, even Unerman et al. (2007) stated that more and more organisations, especially the larger multinational firms, have started making attempts to enhance their economic, environmental, and social performances. Hence, the notion of sustainable development has gradually become an important organising theme in contemporary society. It, in itself, is very surprising as it was originally familiarised in 1987, following the publication of the Brundtland Report, termed after Mr. Gro Harlem Brundtland (1981-1986), the Norwegian Prime Minister.

Recently, many companies across the globe have started implementing Sustainability Reporting activities. The Global Reporting Initiative (2011) stated that a large number of companies around the world have generated sustainability reports. According to the KPMG research conducted in 2008, almost 80% of the largest 250 organisations in the world generated sustainability reports, which was higher than 50% of companies in 2005. Furthermore, investigating 34 countries, the KPMG International Survey in 2011 revealed that 95% of the 250 largest organisations started implementing corporate responsibility activities. Also, corporate responsibility reporting has been initiated by the Top 100 organisations in 34 countries (KPMG, 2011). This report was generated to respond to the demand placed on the organisations to become more transparent with regards to in what manner they treated social, environmental and economic activities since these could influence the stakeholders. Hence, sustainability reporting is understood to affect corporate organisations' performance significantly. It must also be taken note that many leaders of business, as well as a majority of the academic literature related to sustainability reporting, recognise that it is a beneficial system. Therefore, any organisation not involved in sustainability reporting is regarded as one which is striving towards an unsustainable development.

To date, the actual effect of sustainability reporting on organisational activities, practices, and outcomes has not been properly investigated (Hubbard, 2008). The studies' results conducted on the association between sustainability reporting and the organisation's financial performance are either contradictory or inconclusive since they reported either positive or negative results. In their study, Burhan & Rahmanti (2012) concluded that owing to their inconsistent results, in the future, the researchers need to re-evaluate the significant variables affecting organisational performance. Therefore, in this study, the researchers attempted to respond to the research question: Does the sustainability reporting quality significantly affect the corporate financial performance that is moderated by good corporate governance in all food and beverage companies listed on the Indonesian stock exchange?

The research gap noted in the investigation is related to the expectations that the stakeholders have from their organisations. According to the normative context of the stakeholder theory, all the stakeholders possess some minimal rights, which should not be violated or tampered with. It is also noted that this viewpoint is enlarged to the idea, stating that all the stakeholders need to be offered essential information regarding how the organisation affects them. In this case, the sustainability reporting offers a framework that helps create value for the stakeholders that can satisfy all the interests of the diverse stakeholders. Hence, this research is on basis of the stakeholder theory that the managers need to manage the organisations in such a manner that it can benefit all the stakeholders. It is also in agreement with the legitimacy theory that emphasises that organisations need to constantly certify that they operate within society's norms, bounds, and expectations. Hence, the corporate must uphold its continuity as well as survival by revealing all the information to the stakeholders voluntarily. Furthermore, from the accountability perspective, the organisation becomes accountable when it is responsive, transparent, and complies with the appropriate rules of good corporate governance by engaging with the stakeholders and becoming accountable for its performance. It defines the

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

relationship between the corporate managers and the remaining society. The companies need to report about their economic, environmental, and social performance to become accountable to the stakeholders. In this review, the researchers investigated the effect of sustainability reporting and concluded that a majority of the published studies had presented inconclusive or contradictory results. Some studies presented a positive or negative impact of sustainability reporting on an organisation's financial performance. Accordingly, this research gap needs to be filled.

LITERATURE REVIEW

Stakeholder Theory

Freeman (1984) presented the basic definition of the stakeholder theory. The application of the stakeholder theory along with the legitimacy theory helps in improving the understanding of the sustainability reporting activities implemented by the organisations. As the stakeholder theory focuses more on the social aspects of sustainability, it was generally employed in studies related to sustainability (Gray et al., 1995; Rana, 2008; Chan et al., 2014). Furthermore, sustainability reporting and other disclosures form a two-way correspondence system between the corporation and its major partners (Gray et al., 1995).

This theory confirms that the stakeholders play a vital role in determining the sustainability disclosures and activities (Roberts et al., 2005; Nazar, 2021). The main stakeholders pay more attention to the degree of effect of the disclosure or non-disclosures on the financial performance, either an improved repute or acquiring a competitive gain. On the other hand, the secondary stakeholders focus more on sustainability reporting and wish that it is more transparent. They are also more concerned about the environment and society. This theory denotes a positive connection between sustainability reporting and financial performance, which supports the stakeholder theory (Dragomir, 2008). This theory is reinforced further when the firms present an effective strategy, in which they report less on the earlier issues when newer issues arise, as the earlier issues were not regarded as important. Crittenden et al. (2011) noted that although the firms were exposed to different pressure types and levels from the varied groups of stakeholders, they would not involve in more response activities as their actions would fulfill the requirements and demands of the groups which were more important and influential. These results are seen to be aligned with the strategic and opportunistic approach used for the stakeholder theory since the stakeholders' actual needs were not dealt with but only counted in as a means for improving the profitability.

Thus, the information (either financial, accounting, social, economic, or environmental) is regarded as the best tool possessed by the company for managing all stakeholders to acquire their support and acceptance or prevent any disagreement and disapproval with regards to the company's strategy. To conclude, the stakeholder's theory argues that the companies are more concerned about the ethically-treating stakeholders who moderate the economic reasons and the objectives of the companies so that these organisations consider their moral responsibility toward the society and the different social effects on the citizens and society (Stoney & Winstanley, 2001). The main responsibility of the stakeholder theory is that the organisations do not operate or implement their activities in an empty field or sphere since a group of collectibles or companies need to respond to all their needs. These organisations need to display their skills and abilities for adjusting to the progressions in the environment of business, which can create novel needs or modify all existing ones. Particularly, this theory postulates that the companies' abilities to create sustainable prosperity are based on their

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

relationships with the relevant stakeholders and not the society (Donalson & Preston, 1995). It indicates the fact that disclosing vital and sustainable information is regarded as a means of disguising the stakeholder demands. Hence, the companies can acquire the support of various agents. In the long term, this theory is accepted and can survive (Gray et al., 1995). Therefore, the objective of the stakeholder theory aligns the owner's objectives with those of the different involved agents, as the company is regarded as an organisation having interdependent components that can have opposing perspectives (Gray et al., 1995; Deegan, 2002). To conclude, CSR activities are regarded as a tool that can be used by the companies as a response to the stakeholder demands, which can guarantee their support and restrain their activism (Diamastuti et al., 2021).

Legitimacy Theory

Milne & Patten (2002) explained that organisations generally strive to obtain a sense of balance between societal and organisational values. A social contract can be developed between society and the firm when this balance is established. If the society notes that the firm does not operate or fulfil the social contract and the societal values differ from the organisational values, a negative societal opinion is established regarding the organisation. This negative opinion acts as a risk to the performance of an organisation. If the firm operates unsatisfactorily to the community and society, they can break the social contract with it. The societal reaction is expressed in different forms, i.e., decreased consumers' demand for the services or products developed by the firm, or the suppliers can restrict the important resources' supply to the firm. According to Deegan (2002) and Cho & Patten (2007) defined a social contract that is broken as a gap of legitimacy. To respond to this gap, the firms attempt to compensate or repair the broken contracts.

The selection of this theory can be justified by understanding the problems noted in the community and society. Ghozali & Chariri (2007) observed that the legitimacy theory is a status or condition wherein the value system of the company is in line with the large social system's value system to where it belongs (Hartikayanti & Trisyardi 2016). The legitimacy theory can present some reasons as to why the company indulges in disclosing its sustainability information. The organisation is motivated to disclose all vital environmental and social information for legitimising its social status. This theory is on the basis of the idea that for continuing their successful operations, the companies need to work inside the norms that a community considers to be accepted socially. The organisations are able to utilise the disclosures of environment voluntarily to legitimising their strategy. This theory can be used to explain the motives behind reporting environmental and social data. Due to an increase in the social tension on the firms, they tend to legitimise their activities and use tools like environmental and social disclosures for this purpose (Alikhani & Maran, 2014; Noodezh & Moghimi, 2015; Saleh et al., 2021).

According to Juhmani (2014), the legitimacy theory can be used as an effective tool for developing the company strategies, particularly those related to the efforts for positioning themselves in the advanced society. Hence, it is important to disclose the environmental reports that are related to the legitimacy theory since this disclosure assures that the organisational activities are within the social limits, rules, and regulations, while the social, economic, and environmental challenges can dictate the organisations and governments. It will force the organisations to comply with the rules, values, and norms, as well as expose all the social and environmental information voluntarily for indicating their obedience. Hence, the legitimacy theory is seen to play a vital role as a justifiable factor, allowing the companies to disclose their corporate social reports (Figure 1).

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

Theoretical Framework and Hypothesis Development

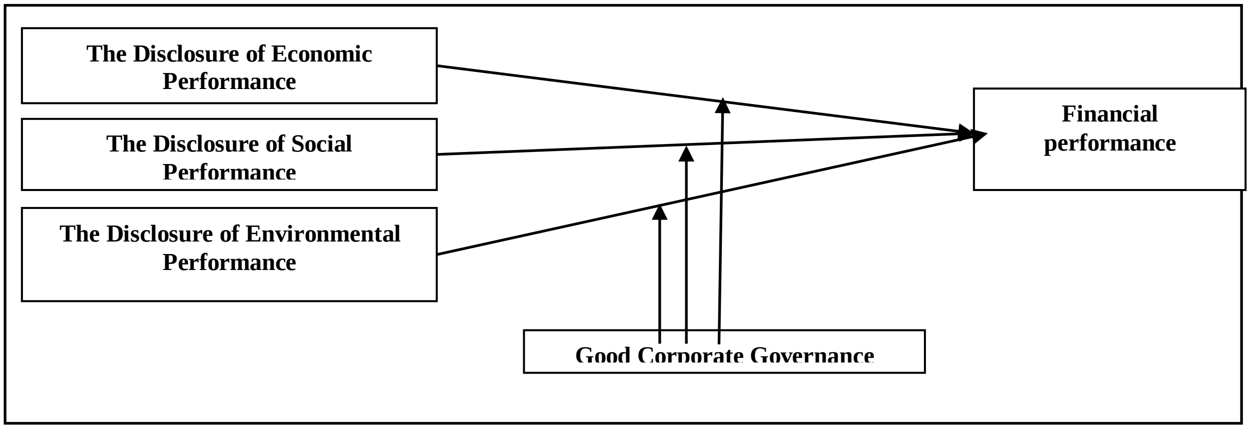

FIGURE 1
THEORETICAL FRAMEWORK BASED ON THE HYPOTHESES

The Researchers Presented the Following Hypotheses in this Research Study

The world is facing major issues like climate change and global warming. The companies must be aware of these issues. Hence, besides improving their profitability, they are responsible for managing their sustainability. Investors also need to be selective while making important investment decisions. In addition to making investment decisions using financial performance data, the investors also need to consider the company's performance while managing sustainability. They need to consider the non-financial aspects while making lending and investment decisions. Putting resources into a beneficial and socially mindful organisation is superior to putting resources into productive organisations that disregard the climate. Higher profitability looks good only to the investors, while higher sustainability is appreciated by the stakeholders.

The sustainability reporting allows the company management to become very focused on environmental and social issues. With regards to the matters considered important by the company, the management needs to set goals, establish some metrics, and monitor their progress. Hence, the sustainability reports would help in establishing processes for collecting and reporting the data. It signifies the companies are not very focused on the reports but on the reporting procedure, which makes the act of generating sustainability reports a continued activity that is vital for running the business or selling it. Additionally, while offering more data to the investors and customers, the sustainability reporting yields another benefit as the company can offer a lot of information to the management, thus aiding in their decision-making process (Leibs, 2007; Saleh et al., 2021). Hence, collecting the sustainability data effectively can allow the sustainability reporting process to function more traditionally, giving the management additional information, which they can utilise for making decisions regarding energy usage, emissions, and other important factors.

H_1 The disclosure of economic performance significantly affects the company's financial performance.

H_2 The disclosure of social performance significantly affects the company's financial performance.

H_3 The disclosure of environmental performance significantly affects the company's financial performance.

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

Relationship between GCG and Sustainability Reporting

Currently, the companies focus more on sustainable development and sustainability, which can alter the corporate culture and in turn, affect society. Sustainability consists of 3 major dimensions, i.e., responsibility of social, responsibility of environmental, and the growth of the economy.

Based on the CEOs' (Accenture, 2010) extensive study, it was noted that 93% of the CEOs deemed that issues of sustainability were vital for the companies' future success. 72% of the CEOs in 2007 considered that the issues of sustainability need to be incorporated into the running and strategies of the company, whereas in 2010, 96% of the CEOs expressed this belief. It indicates rising interest in the issue of sustainability. Regarding this, the social, economic, as well as environmental factors in addition to the corporate governance are vital business and corporate strategies, as they are implemented in the company' daily operations, stimulating the work and success and acting as an indicator for risk and threat. They can also push for seizing vital opportunities and become an important component of the company reporting voluntarily, which assesses the relationship among the social, economic, and environmental performance assessment and the corporate governance. Though there is no direct association noted between corporate governance and environmental performance (Salo, 2008; Nazar, 2021), the researchers stated that both these factors contributed individually to the organisational performance.

Nevertheless, a fuzzy relationship is noted between the organisation's environmental and economic performance (Horváthová, 2010). Furthermore, the connection between corporate governance and social performance and that between the social-environmental and economic performances needs to be investigated further. Relevant and measurable goals related to sustainable development and other metrics need to be integrated with the financial and non-financial data reporting. The organisational activities which lead to them offering delayed, incomplete, or insufficient data are considered a flaw and a greater risk by the investors. Hence, they need to invest small amounts in these companies. The solution is seen to be the reporting and integration of the non-financial and financial indicators. Similar principles are applied to the 2 indicators. In the different cases, these need to be measurable, relevant, comparable, understandable, and motivating.

Based on the OECD principles (2004), the researchers assumed that a viably working system of corporate governance in the organisation helps instill trust and confidence, which is vital for a market economy. Many sectors related to corporate governance also appear when this term is defined succinctly. When it is integrated with sustainability, it leads to the strategy development of corporate, wherein long-term goals of the corporate can be fulfilled with the effectiveness, competitiveness, and performance, which involves the integration of the social, environmental, and economic aspects into the governance of corporate. The results indicated that corporate governance is a vital element in improving economic performance and growth, which ensures an increasing trust of all investors. This factor includes various associations between the stakeholders, management of company, governing bodies, and others with a necessary interest in the company. It also covers many areas that are manifested by the efforts for creating a concise definition of this term.

In an earlier paper, James-Overheu & Cotter (2009) investigated the corporate governance activities' quality and disclosures of sustainability. Results indicated that these factors were contrariwise linked to the default risk assessed. It was anticipated that the corporate governance's highly reported standards decreased the organisation's default risk assessment by the lenders, underwriters, and rating agencies. It also reduced these companies' debt costs. Besides, the index of corporate governance was based on the disclosures of the annual report and could regard the corporate

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

governance's quality of every corporation. The index derivation was based on the indicators of corporate governance suggested by earlier studies and practice, especially those by the Australian Stock Exchange. The researchers proposed the following hypotheses based on the above arguments:

H_4 *A good quality of corporate governance moderates the impact of the disclosure of economic performance on the company's financial performance.*

H_5 *A good quality of corporate governance moderates the impact of the disclosure of social performance on the company's financial performance.*

H_6 *A good quality of corporate governance moderates the impact of the disclosure of environmental performance on the company's financial performance.*

RESEARCH METHOD

This design of correlation study aimed to look at the connection between dependent and independent variables (Hair et al., 2010). To discover the effect between various variables, this examination utilised a quantitative methodology and secondary data like the association's yearly reports and the company site, if there is one produced from, CSR reports and statements of financial. Those data were processed and analysed until the information regarding the research question can be concluded. Thus, collected data would be analysed using statistical analysis techniques using the SPSS program.

This study's population was all companies of food and beverage listed on the Indonesian stock exchange during 2016-2019. The method of sample selection employed was purposive sampling method, with the sample criteria: (1) corporates that partook in Corporate Governance Perception Index (CGPI); (2) corporates that published their financial statements from 2016-2019; (3) corporate that launched and issued sustainability report from 2016-2019; (4) The data of financial report, Corporate Governance Perception Index (CGPI), and sustainability report were entirely available from 2016-2019. The final sample was 59 companies. Besides, to analyse the effect between variables, the method used was Moderated Regression Analysis.

Measurement

Performance of corporate is a subjective proportion of in what way a corporate able to utilise resources well from its business's primary mode and create incomes. This word is additionally utilised as an overall proportion of an association's monetary wellbeing in general over a given period and can be employed to analyse comparable firms across a similar industry. The proxies for performance of financial incorporate accounting performance measures, return on asset (ROA), and return on equity (ROE) (Gatimbu & Wabwire, 2016). The motivation behind why ROA was utilised as a measure of performance coordinating on ROA was that the results found to bring about more remarkable and better-determined tests contrasted with other coordinating variables in earlier studies examining the long-term performance of stock return that is abnormal and performance of operating that is abnormal.

In this examination, the independent variable was the report of sustainability, dependent on the entire economic, environmental, and social dimensions. This variable was estimated through GRI-G4's Sustainability Report Disclosure Index (SRDI). The number of sustainability reports was 91. SRDI gives worth of 1 if the item is uncovered, and the other way around, it gives a score of 0 when it is not

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

and afterward added together. The score was then analysed into the SRDI formula after scoring on each index was done.

$$SRDI = \frac{n}{k}$$

SRDI: Sustainability Report Disclosure Index
n: Items that be disclosed by the company
k: Items that should be disclosed by company

The GCG was estimated by an indicator of evaluation got from the self–evaluation of GCG execution (Dewayanto, 2010). The consequences of the self-appraisal paper on GCG execution would bring about positioning on each factor or part of the evaluation. The position would be increased by each factor's weight. The last score for every component was acquired by increasing the weight of the percentage by the position consequence of each factor. To get a composite worth, the bank should include the last score of the eleven elements. The subsequent composite worth has a composite predicate from the GCG self–appraisal.

RESULT AND DISCUSSION

Here, the researchers tested their hypotheses 3 times using different tests. They carried out Test 1 for examining the disclosure of social, environmental, and economic performance's impacts on the organisation's financial performance, using the below equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_1 \quad (1)$$

They also carried out Tests 2 and 3 for examining the effects of moderation of the good quality of corporate governance on the relationship between the disclosure of social, environmental, and economic performance on the organisations' financial performance. They noted the moderation variables' qualification using the below equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \varepsilon_2 \quad (2)$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \beta_5 X_1 \times Z + \beta_6 X_2 \times Z + \beta_7 X_3 \times Z + \varepsilon_2 \quad (3)$$

Y: Financial Performance
X1: The Disclosure of Economic Performance
X2: The Disclosure of Social Performance
X3: The Disclosure of Environment Performance
Z: Good Quality of Corporate Governance
α: Constants
β: Regression Coefficient
ε: Error

Tables 1, 2, and 3 present the variables for testing the hypotheses:

The Disclosure of Economic Performance's Effect on the Company's Financial Performance

As seen in Table 1, the coefficient of regression for the disclosure of economic performance was -0.185, with a value of significance of 0.007 (<0.05). It indicated that H_0 was rejected, whereas H_1 was accepted. Hence, it was noted that the economic performance disclosure negatively affected the

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

financial performance of an organisation. The disclosure of economic performance referred to the data disclosure regarding the effect of the economic situation of the company on the stakeholders as well as the economy of local, national, and global. An adverse effect was noted between the disclosure of economic performance and the company's financial performance, which was in line with the management opportunism hypothesis. The managerial opportunistic was defined as the condition wherein the managers are advised to decrease spending a lot of money on their social performance for improving the profitability that is short-run and the compensation of management. However, if the financial performance was bad, the management can divert its attention to the reporting of sustainability (Preston & O'Bannon, 1997). Hence, companies with poor financial performance (or low profitability) reveal a lot of information regarding the economic performance for distracting the stakeholders and shareholders. It was in accordance with the data of financial performance and the disclosures of economic presented in the sample of the study, wherein the corporates showed lower financial performance than the other financial organisations; however, they displayed a better economic performance.

The Disclosure of Social Performance's Effect on the Company's Financial Performance

Table 1 exhibits that the coefficient of regression for the disclosure of social performance variable value was 0.772, with a 0.00 value of significance (<0.05). It indicated that H_0 was rejected, while H_2 was accepted. The disclosure of social performance referred to the data disclosure related to the company's effect on the system of social surrounding it (Global Reporting Initiative). A company's economic performance elucidates the interaction risk with the social organisations it manages. The corporate is mainly concerned while anticipating society-related issues like public policy, corruption, and anti-competitive policies like monopoly and anti-trust. The disclosure of the sustainability report related to the social performance aspects would affect the perceptions of stakeholder regarding the treatment from the company of its HR (Simbolon & Sueb, 2016). The social responsibility's implementation and reporting to all stakeholders are able to enhance the mean company's stock price and improve employee loyalty and welfare. On the other hand, it decreases employee turnover, which increases the company's productivity and profitability (Ernest, 2013).

These findings are in proportion to the theory of legitimacy, wherein the company can exist if the community states that it runs on a system of value that is similar to that required by the community. The corporates employ the reports of sustainability for highlighting that they are mindful of their community. Additionally, the study's results are corresponding to the theory of stakeholder, presuming that the corporate is an entity that operates for its shareholders' benefits and offers advantages to all stakeholders. The results agree with the hypothesis of social impact that suggested that compliance with the stakeholder's needs can positively affect the company's financial performance.

The Disclosure of Environmental Performance's Effect on the Company's Financial Performance

As seen in Table 1, the coefficient of regression of the disclosure of environmental performance variable value was 00.351, with a 0.011 value of significance (<0.05). It indicated that H_0 was rejected, while H_3 was accepted.

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

Table 1
RESULTS OF REGRESSION ANALYSIS BASED ON EQUATION 1

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.004	0.038		-0.103	0.919
	Economics (X1)	-0.185	0.064	-0.185	-2.907	0.007
Social (X2)		0.772	0.153	0.771	50.053	0.000
Environment (X3)		0.351	0.129	0.350	2.709	0.011

The environment performance disclosure refers to the disclosure of data concerning the organisational effect on the living and the non-living natural systems like air, land, water, and the ecosystem (Global Reporting Initiative). The disclosure of the environmental performance is vital as it displays the companies' existence and participation while dealing with the environmental issues. The corporates present their existence and participation while handling environmental issues, which is their moral duty and corporate responsibility towards the environment. It is in line with the theory of legitimacy. The organisation's communication ability toward its activities of environmental protection to its stakeholders can improve the trust and reputation of the company in the eyes of the stakeholders, like consumers, which can further improve the corporate earnings (Global Reporting Initiative).

This study's results are in keeping with the theory of stakeholder, assuming that the corporate is an entity that operates for the shareholders' benefits and benefits other stakeholders. The results are also in line with the hypothesis of social impact that suggested that the company's compliance with the stakeholder needs can positively affect its financial performance. It further showed that the financial organisations regarded the environmental performance disclosure as a chance for increasing its performance, not a burden.

Table 2
RESULTS OF REGRESSION ANALYSIS BASED ON EQUATION 2

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.003	0.033	-0.212	-0.099	0.922
	Economics (X1)	-0.212	0.056		-3.762	0.001
	Social (X2)	0.843	0.136	0.841	6.210	0.000
	Environment (X3)	0.278	0.116	0.278	2.409	0.022
GCG Quality (Z)		0.110	0.034	0.110	30.220	0.003

The Good Quality of Corporate Governance's Effect on the Relationship between Disclosure of Economic Performance and Financial Performance

Table 2 reveals that the coefficient of moderation for the good quality of corporate governance on the relationship between the disclosure of economic performance and financial performance was 0.260, with a 0.017 value of significance (<0.05). It indicated that H_0 was rejected, while H_4 was accepted. The adverse effect of the disclosure of economic performance on financial performance was attributed to a manager who is opportunistic. Opportunistic management is a circumstance wherein the managers are advised to decrease their expenditure on social performance for improving the profitability that is short-term and the compensation of management. However, if the financial performance is bad, the management tends to divert attention to the sustainability reports (Preston, 1995). Hence, companies with poor financial performance (or low profitability) often reveal more data

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

related to their economic performance for distracting the stakeholders and shareholders from their poor performance of financial.

The governance of corporate refers to a system that disciplines the management and forces them to make appropriate decisions (Cuervo, 2005). The companies having a good quality corporate governance display an effective supervisory mechanism. The researchers noted that a better corporate governance quality decreased opportunistic managers.

Table 3
RESULTS OF REGRESSION ANALYSIS BASED ON EQUATION 1

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error	Beta		
1(Constant)	0.047	0.042		1.122	0.272
Economics (X1)	-0.166	0.051	-0.166	-3.254	0.003
Social (X2)	0.730	0.122	0.728	5.958	0.000
Environment (X3)	0.346	0.104	0.346	3.343	0.002
GCG Quality (Z)	0.169	0.035	0.169	4.784	0.000
M1	0.260	0.102	0.148	2.549	0.017
M2	0.217	0.216	0.081	1.001	0.326
M3	-0.644	0.266	-0.161	-2.419	0.023

The results of the study supported the instrumental stakeholder theory corporations responsible for organising the missions of the organisations and some strategies for their achievement. It indicated that the company boards are primarily responsible for implementing, designing, and improving the organisation's contribution to the well-being of the people and sustainable development.

Similar results were noted earlier (Harjoto & Jo, 2011), which suggested that the CSR strategic choices were positively associated with the features of corporate governance. The positive effect of CSR on financial performance was on the basis of the establishment of the appropriate corporate governance mechanism (Kabir & Thai, 2017). An earlier study (Yeon, 2016) noted that corporate governance moderated CSR and the performance of corporate. The environmental activities implemented by the corporates generate additional benefits and costs, which affects the financial performance of the company. These benefits offer an advantage that is competitive to improve the company's image.

The Good Quality of Corporate Governance's Effect on the Relationship between Disclosure of Social Performance and Financial Performance

As seen in Table 3, the coefficient of moderation for the good quality of corporate governance on the relationship between the disclosure of social performance and financial performance was 0.217, with a 0.326 value of significance (<0.05). It indicated that H_0 was accepted, while H_5 was rejected. It was concluded that good corporate governance did not moderate the disclosure of social performance's effect on financial performance. The existing data showed that the financial companies with good corporate governance are aware of their social performance. Additionally, the financial firms regarded the disclosure of social performance as a chance for increasing its performance, not a burden. Thus, the disclosure of social performance positively affected the company's financial performance. It was also noted that the variable of good corporate governance acted as the predictor variable (independent).

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

The Good Quality of Corporate Governance's Effect on the Relationship between Disclosure of Environmental Performance and Financial Performance

As seen in Table 3, the coefficient of moderation for the good quality of corporate governance on the relationship between the disclosure of environmental performance and financial performance was 0.260, with a 0.017 value of significance (<0.05). It indicated that H_0 was rejected, while H_6 was accepted. The disclosures of sustainability reports force the organisations to go through extra expenses, which decrease their earnings (Preston & O'Bannon, 1997). For improving the performance, the organisations rely on the corporate governance and executive autonomy that monitors and controls the environmental activities in the sustainability reports, thereby enabling effective decision-making.

However, this study's results did not support this theory. The findings indicated that the sustainability reports generated by the companies having good corporate governance degraded their financial performance. It was attributed to the primary target held by all shareholders (who had invested their capital) to maximise their profits. The shareholders express a few limitations in the company management.

CONCLUSION

The results show in view of the analysis results to monetary following CGPI and issuing sustainability report, it could be denoted that the disclosure of economic performance negatively affected the financial performance. The disclosure of social performance positively affected financial performance. The disclosure of environmental performance positively affected financial performance. Good quality of corporate governance weakened the disclosure of economic performance's effect on financial performance. Good quality of corporate governance moderated the disclosure of social performance's effect on financial performance. Good quality of corporate governance weakened the disclosure of environmental performance's effect on financial performance.

Grounded on the discussion's results and the conclusions, some suggestions are provided. (1) Sustainability report disclosure is vital since by revealing non-financial information, such as social, economic, and environmental performance, it can provide more benefits to the company and stakeholders. It is recommended for the government to make standards and regulations concerning the sustainability report, provided that the sustainability reporting is still voluntary. (2) Besides making annual reports, the company needs to prepare a sustainability report (SR) because it is a report that answers the desire of the public or stakeholders to concern the company about the environment. Moreover, today, the sustainability report has been employed as one strategy to improve the company's image, increasing the company's financial performance in the future.

This research's contributions can be seen from two significant viewpoints – practical and theoretical. (A) Practical contributions: this study will help different partners in organisation management since sustainability reporting is quickly developing; various guidelines and structures have arisen. This study will also help organisation management in figuring out which sustainability guidelines and standards to follow. For regulatory makers from an administrative point of view, there are at present no authoritative prerequisites for organisations to get ready and distribute sustainability reports. This research will help improve comprehension of the extent of information on regulatory makers, such as the corporate affairs commission and the authoritative bodies of government, in setting up guidelines that empower sustainability reporting. Third, for companies that have not yet adopted sustainability reporting, this study will help them embrace sustainability reporting practices to

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

comprehend the upsides and downsides of this advancing detailing framework and its effect on corporate performance. They will be better positioned to make a choice on whether to adopt this system of reporting. For professional accountancy bodies, this examination on a contemporary issue in accountancy improvement will improve the obligatory proceeding with the program of professional accountancy bodies.

Theoretical contributions: In the scholastics area, this study's significance will emerge from these ways. First, it is hoped to add sustainability reporting research by giving a hypothetical structure that clarifies an absence of sustainability reporting usage. Second, it expects to give the understanding perspective to creating logical hypotheses by providing suggestions on accounting that the sustainability reporting can have better effects. Third, it will add to the advancement of the sustainability reporting literature. Fourth, it will provide more understanding to other researchers, scholastics, and students concerning the connection between sustainability reporting and corporate performance.

REFERENCES

Accenture. (2010). A new era of sustainability. UN Global Compact-Accenture CEO Survey Study 2010. Retrieved from www.unglobalcompact.org

Alikhani, R., & Maran Jori, M. (2014). Application of social and environmental information disclosure theories. *Accounting and Auditing Studies*, *3*(9), 36-53.

Burhan, A.H.N., & Rahmanti, W. (2012). The impact of sustainability reporting on company performance. *Journal of Economics, Business, & Accountancy Ventura*, *15*(2), 257-272.

Chan, M.C., Watson, J., & Woodliff, D. (2014). Corporate governance quality and CSR disclosures. *Journal of Business Ethics*, *125*(1), 59-73.

Cho, C.H., & Patten, D.M. (2007). The role of environmental disclosures as tools of legitimacy: A research note. Accounting, organizations and society, 32(7-8), 639-647.

Crittenden, V.L., Crittenden, W.F., Ferrell, L.K., Ferrell, O.C., & Pinney, C.C. (2011). Market-oriented sustainability: A conceptual framework and propositions. *Journal of the Academy of Marketing Science*, *39*(1), 71-85.

Cuervo, (2005). Individual and environmental determinants of entrepreneurship. *International Entrepreneurship and Management Journal*, *1*, 293-311.

Deegan, C. (2002). The legitimising effect of social and environmental disclosures – A theoretical foundation. *Accounting, Auditing & Accountability Journal*, *15*(3), 282-311.

Dewayanto, T. (2010). The effect of good corporate governance mechanism on national banking performance. *Journal of the Faculty of Economics*, 5, 104-123.

Diamastuti, E., Muafi, M., Fitri, A., & Faizaty, N.E. (2021). the role of corporate governance in the corporate social and environmental responsibility disclosure. *The Journal of Asian Finance, Economics, and Business*, *8*(1), 187-198.

Donalson, T., & Preston, L.E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review*, *20*(1), 65-91.

Dragomir, V.D., & Ilcu, E.R. (2008). Corporate governance in the European Union: A timeline of regulatory transformations. *Financial Innovation and Competition in European Union*, 154-160.

Ekwueme, C. (2011). Social responsibility accounting: An overview, in M.A. Mainoma (Ed.) Contemporary issues in accounting development. A publication of the Association of National Accountants of Nigeria (ANAN) MCPD 2011, 45-63.

Epstein, M.J. (2008). *Making sustainability work: Best practices in managing and measuring corporate Social, environmental, and economic impacts*. Greenleaf Publishing Limited, UK.

Ernest, Y. (2013). Value of sustainabiity reporting. A study by Ernest & Young LLP and the Boston College Center for Corporate Citizenship. Global Review, Boston.

Ezeabasili, N. (2009). Legal mechanism for achieving environmental sustainability in Nigeria. *African Research Review, 3*(2), 369-380.

Freeman, R.E., Wicks, A.C., & Parmar, B. (2004). Stakeholder theory and "the corporate objective revisited". *Organization Science*, *15*(3), 364-369.

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.

Gatimbu, K.K., & Wabwire, J.M. (2016). Effect of corporate environmental disclosure on financial performance of firms listed at nairobi securities exchange, kenya. *International Journal of Sustainability Management and Information Technologies, 2*(1), 1-6

Ghozali, I., & Chariri, A. (2007). *Accounting theory.* Semarang: Badan Penerbit Universitas Diponegoro.

Gray, R., Kouhy, R., & Lavers, S. (1995). Constructing a research database of social and environmental reporting by UK companies. *Accounting, Auditing & Accountability Journal, 8*(2), 78-101.

Hair, J.F., Anderson, R.E., Babin, B.J., & Black, W.C. (2010). Multivariate data analysis: A global perspective: Pearson Upper Saddle River.

Harjoto, M.A., & Jo, H. (2011). Corporate governance and CSR nexus. *Journal of Business Ethics, 100*(1), 45-67.

Hartikayanti, H.N., & Trisyardi, M.R. (2016). Effect of corporate characteristics on environmental disclosure. *International Journal of Applied Business and Economic Research, 14*(10), 6111-6134.

Horváthová, E. (2010). Does environmental performance affect financial performance? A meta-analysis. *Ecological Economics, 70*(1), 52-58.

Hubbard, G. (2011). Beyond accounting: Assessing the impact of sustainability reporting on tomorrow's business.

James-Overheu, C., & Cotter, J. (2009). Corporate governance, sustainability and the assessment of default risk. *Asian Journal of Finance and Accounting, 1*(1), 34-53.

Juhmani, O. (2014). Determinants of corporate social and environmental disclosure on websites: The case of Bahrain. *Universal Journal of Accounting and Finance, 2*(4), 77-87.

Kabir, R., & Thai, H.M. (2017). Does corporate governance shape the relationship between corporate social responsibility and financial performance? *Pacific Accounting Review,* 29, 227-258.

Leibs, S. (2007). One for three should governance, risk management, and compliance be tracked as one problem, or is this a classic case of scope creep? *CFO, 23*(9), 77.

Milne, M.J., & Patten, D.M. (2002). Securing organizational legitimacy: an experimental decision case examining the impact of environmental disclosures. *Accounting, Auditing & Accountability Journal.*

Nazar, M.C.A. (2021). The Influence of Corporate Governance on Dividend Decisions of Listed Firms: Evidence from Sri Lanka. *The Journal of Asian Finance, Economics, and Business, 8*(2), 289-295.

Noodezh, H.R., & Moghimi, S. (2015). Environmental costs and environmental information disclosure in the accounting systems. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 5*(1), 13-18.

OECD, O. (2004). The OECD principles of corporate governance. *Contaduría y Administración*, (216).

Preston, L.E., & O'bannon, D.P. (1997). The corporate social-financial performance relationship: A typology and analysis. *Business & Society, 36*(4), 419-429.

Rana, S. (2008). Facts and data on environmental risks-oil and gas drilling operations. In *SPE Asia Pacific Oil and Gas Conference and Exhibition*. OnePetro.

Roberts, J., McNulty, T., & Stiles, P. (2005). Beyond agency conceptions of the work of the non-executive director: Creating accountability in the boardroom. *British Journal of Management, 16,* S5-S26.

Saleh, H., Rosadi, I., Manda, D., Maulana, Z., & Idris, S. (2021). The effect of good governance on financial performance: An empirical study on the siri culture. *The Journal of Asian Finance, Economics and Business, 8*(5), 795-806.

Salo, J. (2008). Corporate governance and environmental performance: Industry and country effects. *Competition & Change, 12*(4), 328-354.

Simbolon, J., & Sueb, M. (2016). *The effect of sustainability report disclosure on company financial performance. (Empirical study on mining companies and energy subsector infrastructure listed on the IDX 2012-2014).* Accounting National Symposium. Lampung,

Steg, L., & Vlek, C. (2009). Encouraging pro-environmental behaviour: An integrative review and research agenda. *Journal of environmental psychology, 29*(3), 309-317.

Stoney, C., & Winstanley, D. (2001). Stakeholding: Confusion or utopia? Mapping the conceptual terrain. *Journal of Management studies, 38*(5), 603-626.

Syakhroza, A. (2005). Corporate governance: History and development, theories, models, and systems and applications on corporate governance of SOEs. *Unpublished Paper. Jakarta, Indonesia: Lembaga Penerbit FE UI.*

Unerman, J., Bebbington, J., & O'Dwyer, B. (Eds.). (2007). *Sustainability Accounting and Accountability*. Routledge, London.

Welford, R. (2016). *Corporate environmental management 1: Systems and strategies*. Routledge.

Yeon, K.H. (2016). Moderating effect of corporate governance structure between corporate social responsibility and performance. *Indian Journal of Science and Technology, 9*(46), 0974.

Citation Information: Al-Naser, K.H.Y., Jameel, S.Z.M., Alsendy, A.M., & Riyadh, H.A. (2021). The moderating effect of good corporate governance on relationship between sustainability reporting and corporate financial performance. *Academy of Strategic Management Journal, 20*(5), 1-15.