



FINANCIAL PERFORMANCE AND CORPORATE GOVERNANCE AS DETERMINANTS OF SUSTAINABILITY REPORT DISCLOSURE WITH FIRM SIZE AS A MODERATING VARIABLE

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ARTICLE INFORMATION

Article History:

Received 28 Januari, 2026

Revised 26 Februari, 2026

Published 25 April, 2026

Keyword:

*sustainability reporting,
financial performance,
corporate governance,
firm size,
PLS-SEM*

ABSTRACT (Italic, 10pt, Times New Roman, Bahasa Inggris)

Abstract: This study aims to analyze the effect of financial performance and corporate governance on sustainability reporting, with firm size as a moderating variable, in consumer cyclicals and consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Financial performance is measured using ROA, ROE, and NPM, while corporate governance is measured through independent commissioners, managerial ownership, the audit committee, and audit quality. Sustainability reporting is measured using the GRI index. This study uses a quantitative approach with PLS-SEM analysis on 120 observation data points. The results show that financial performance and corporate governance do not have a significant effect on sustainability reporting. Firm size also does not moderate this relationship.

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Introduction

The issue of sustainability has become a major concern in the modern business world. Companies are no longer solely oriented toward achieving economic profit but are also required to pay attention to social and environmental aspects. One form of implementing this responsibility is through sustainability report disclosure as a form of corporate transparency toward stakeholders (OJK, 2017, 6). In Indonesia, the obligation to report on sustainability is regulated through Law No. 40 of 2007 concerning Limited Liability Companies and reinforced by POJK No. 51/POJK.03/2017. Furthermore, recent developments show that by 2024, as many as 94% of companies listed on the Indonesia Stock Exchange had prepared sustainability reports (Indonesia Stock Exchange, 2025).

Financial performance is a key indicator for assessing a company's success in managing its

resources. Companies with good financial performance have a greater capacity to allocate resources for social and environmental activities, and are thus expected to be able to improve their sustainability report disclosure (Rohmah, Adiputra, and Kurniawati, 2019, 149). In addition, corporate governance also plays an important role in encouraging organizational transparency and accountability. The Organization for Economic Co-operation and Development (2023, 11) states that good corporate governance is based on the principles of transparency, accountability, independence, responsibility, and fairness.

Firm size is also considered an important factor that can moderate the relationship between financial performance and corporate governance on sustainability reporting. Large companies have high public visibility and face pressure from various parties to be more transparent in disclosing information. However, previous research shows inconsistent results, so this study was conducted to provide further empirical evidence.

Literature Review and Hypothesis Development

Stakeholder theory explains that a company is not only responsible to its shareholders, but also to all parties with an interest in the company's activities, such as employees, communities, the government, and the environment. In this context, sustainability report disclosure serves as a means for companies to communicate their responsibility for economic, social, and environmental aspects to stakeholders (Ika et al., 2021, 3). In addition, legitimacy theory states that companies must carry out their activities in accordance with the norms and values prevailing in society in order to maintain business continuity. Therefore, sustainability report disclosure can be used as a corporate strategy to obtain social legitimacy and improve reputation in the eyes of the public (Ruhana and Hidayah, 2020, 280). A sustainability report is a report that covers information regarding a company's economic, social, and environmental performance, prepared based on specific standards such as the Global Reporting Initiative (GRI). Disclosure of this report provides long-term benefits for companies, including increasing investor trust and strengthening firm value (Nurdin and Riyadi, 2023, 23). In practice, the level of sustainability report disclosure can be influenced by various factors, one of which is financial performance.

Financial performance reflects a company's ability to generate profit and manage resources effectively (Indonesian Institute of Accountants, 2019, 5). Companies with a high level of profitability tend to have greater resources to carry out social and environmental activities, making them more capable of disclosing sustainability reports comprehensively. Based on this description, the following hypothesis is formulated:

H1: Financial performance affects sustainability reporting.

In addition to financial performance, corporate governance is also an important factor influencing sustainability report disclosure. Corporate governance is a system that regulates the relationship between management and stakeholders with the aim of creating transparency, accountability, and fairness in company management. Good governance implementation can improve the quality of corporate reporting, including the disclosure of non-financial information such as sustainability reports (Ika et al., 2021, 3). According to Nainggolan and Karunia (2022, 422), the main purpose of corporate governance is to provide benefits to all parties involved. Governance mechanisms such as independent commissioners, managerial ownership, the audit committee, and audit quality play a role in ensuring that companies carry out their responsibilities transparently. Thus, corporate governance is presumed to have an effect on sustainability reporting, so the following hypothesis is formulated:

H2: Corporate governance affects sustainability reporting.

Furthermore, firm size is also considered a factor that can moderate the relationship between financial performance and corporate governance on sustainability reporting. Firm size reflects a company's

scale of operations and resource capacity. Large-sized companies tend to have higher public visibility and face greater pressure from various parties to disclose information transparently (Purnama and Handayani, 2021, 142). This causes large companies to be more motivated to prepare sustainability reports more comprehensively compared to small companies. Therefore, firm size is presumed to be able to strengthen the relationship between financial performance and sustainability reporting, so the following hypotheses are formulated:

H3: Firm size moderates the relationship between financial performance and sustainability reporting.

H4: Firm size moderates the relationship between corporate governance and sustainability reporting.

Research methods

This study uses a quantitative approach with an explanatory design aimed at analyzing the causal relationship between financial performance, corporate governance, and sustainability report disclosure, with firm size as a moderating variable (Sugiyono, 2019). A quantitative approach was chosen because the data used is numerical and analyzed using statistical techniques, resulting in objective and measurable findings.

The population in this study consists of all consumer cyclicals and consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange (IDX). The research sample was determined using a purposive sampling technique with specific criteria, namely companies that consistently published annual reports and sustainability reports during the 2021–2024 period and used the Global Reporting Initiative (GRI) standard. Based on these criteria, 30 companies were obtained, with a total of 120 observation data points.

The data used in this study is secondary data obtained through the documentation method, namely by collecting companies' annual reports and sustainability reports from their official websites. The dependent variable in this study is sustainability reporting, measured using the GRI disclosure index. The independent variables consist of financial performance and corporate governance. Financial performance is measured using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), while corporate governance is proxied through managerial ownership and audit quality. The moderating variable in this study is firm size, measured using the natural logarithm (Ln) of total assets.

Data analysis was carried out using the Partial Least Square–Structural Equation Modeling (PLS-SEM) method with the assistance of the SmartPLS 4 application. This method was chosen because it is able to simultaneously analyze relationships between latent variables, both direct and moderating relationships, and is suitable for use with a relatively limited sample size and data that does not need to be normally distributed (Hamid and Anwar, 2019, 3–4). The analysis stages included outer model and inner model testing. Outer model testing aims to assess construct validity and reliability through convergent validity, discriminant validity, and construct reliability tests. Meanwhile, inner model testing was carried out to evaluate the relationships between variables through the R-square value and significance testing of path coefficients using the bootstrapping technique. The hypothesis testing criteria were determined based on a t-statistic value ≥ 1.96 or a p-value ≤ 0.05 , indicating that the relationship between variables is significant.

Results and Discussion

The research results begin with a descriptive statistical analysis aimed at providing a general overview of the data's characteristics.

Table 1. Descriptive Statistical Analysis

Indicator	N	Min	Max	Mean	Std. Deviation
ROA	120	-0.219	1.148	0.073	0.126
ROE	120	-2.588	21.972	0.245	2.056
NPM	120	-6.787	0.335	0.010	0.643
KI	120	0.250	0.667	0.405	0.096
KoA	120	3.000	3.000	3.000	0.000
KM	120	0.000	0.197	0.013	0.036
KuA	120	0.000	1.000	0.550	0.497
Total Assets	120	26.306	31.387	29.060	1.325
GRI Index	120	0.103	0.915	0.516	0.190

Source: Processed Data, 2026

Note: KI = independent commissioners; KoA = audit committee; KM = managerial ownership; KuA = audit quality.

Next, the research model is visualized in the form of a structural diagram, as shown in Figure 1. The model illustrates the relationship between financial performance (X1), corporate governance (X2), sustainability reporting (Y), and firm size (Z) as the moderating variable. However, during testing, the audit committee indicator was eliminated because it had no data variation, so the model was adjusted as shown in Figure 2.

Convergent Validity Test

At the outer model testing stage, convergent validity was tested through the outer loading value and Average Variance Extracted (AVE). The results show that there were indicators with low loading values that needed to be eliminated to improve the quality of the model. After adjustments were made, all remaining indicators met the convergent validity criteria, with loading values above the minimum threshold.

Discriminant Validity Test

The cross loading approach was used in this study to conduct the discriminant validity test, by comparing the loading value of each indicator on its construct with the loading value on other constructs.

Table 2. Cross Loading Results of the Discriminant Validity Test

Instrument	Financial Performance (X1)	Corporate Governance (X2)	Sustainability Report (Y)	Firm Size (Z)	Note
ROA	0.709	0.166	0.086	0.017	Valid
ROE	0.544	0.072	0.052	-0.097	Valid
NPM	0.887	0.099	0.216	0.182	Valid
KM	0.066	0.772	0.271	0.188	Valid
KuA	0.151	0.778	0.275	0.477	Valid
GRI Index	0.202	0.352	1.000	0.460	Valid
Total Assets	0.127	0.430	0.460	1.000	Valid

Source: Processed Data, 2026

The discriminant validity test results shown in Table 2 indicate that each indicator has its highest loading value on its own construct compared to other constructs, so it can be concluded that all indicators have met the discriminant validity criteria.

Construct Reliability Test

The reliability test was conducted to assess the level of consistency of each indicator in reflecting its latent construct. In the PLS-SEM approach, reliability is assessed through the Cronbach's Alpha value and the Composite Reliability (ρ_c) value. Hair et al. (2017, 137) state that when assessing internal consistency, true reliability lies between the Cronbach's Alpha value as the lower bound and the Composite Reliability value as the upper bound of the reliability estimate. Therefore, the Composite Reliability value should be greater than the Cronbach's Alpha value ($CA \leq CR$).

Table 3. Cronbach's Alpha and Composite Reliability Results of the Reliability Test

Instrument	Cronbach's Alpha	Composite Reliability (ρ_c)	Description
Financial Performance	0.697	0.764	Reliable
Corporate Governance	0.335	0.750	Reliable

Source: Processed Data, 2026

Based on the test results, all constructs in this study met these criteria, with the Composite Reliability value being higher than the Cronbach's Alpha value. Although the Cronbach's Alpha value for the corporate governance variable was relatively low, this construct can still be declared reliable because the Composite Reliability value met the required threshold. Thus, all constructs in this research model can be used for further analysis.

R-Square (R^2) Value

The R-Square (R^2) value serves to assess how well the independent variables can explain the variation of the dependent variable in the model under study.

Table 4. R-Square (R^2) Value

Instrument	R-Square	Interpretation
Sustainability Report	0.258	Weak

Source: Processed Data, 2026

Based on the test results shown in Table 4, an R-square value of 0.258 indicates that financial performance and corporate governance are only able to explain 25.8% of the variation in sustainability reporting, while the remainder is influenced by other factors outside the research model.

Path Coefficient Significance Test

The path significance test was conducted to determine the hypothesis testing results in this study, with the aim of determining whether the relationships between latent variables in the model are significant or not.

Table 5. Hypothesis Testing Results

Instrument	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Financial Performance (X1) -> Sustainability Report (Y)	0.145	0.131	0.160	0.907	0.365

Instrument	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Corporate Governance (X2) -> Sustainability Report (Y)	0.175	0.173	0.107	1.636	0.102
Firm Size x Financial Performance (X1) -> Sustainability Report (Y)	0.009	0.018	0.106	0.082	0.934
Firm Size x Corporate Governance (X2) -> Sustainability Report (Y)	-0.003	-0.008	0.116	0.028	0.978

Source: Processed Data, 2026

Based on the path coefficient significance test results, it was found that financial performance does not have a significant effect on sustainability reporting, so the first hypothesis (H1) is rejected. Furthermore, corporate governance also does not have a significant effect on sustainability reporting, so the second hypothesis (H2) is rejected. In addition, firm size is not able to moderate the relationship between financial performance and sustainability reporting, nor the relationship between corporate governance and sustainability reporting, so the third hypothesis (H3) and the fourth hypothesis (H4) are also rejected. These results indicate that statistically, there is no significant relationship between the variables tested in the research model.

Discussion

The Effect of Financial Performance on Sustainability Reporting

The hypothesis test results show that financial performance does not have a significant effect on sustainability reporting. This indicates that profitability is not a primary factor in determining the extent of sustainability report disclosure. One reason for the insignificant effect of financial performance on sustainability reporting is that the practice of sustainability report disclosure in Indonesia is increasingly influenced by government regulations, particularly POJK No. 51/POJK.03/2017 concerning sustainable finance. This regulation encourages companies to continue preparing sustainability reports as a form of compliance, so the level of sustainability report disclosure does not entirely depend on a company's financial performance condition.

This finding is consistent with several previous studies that also found that financial performance has no significant effect on sustainability report disclosure. Azzarah, Utami, and Rizky's (2024) research shows that profitability does not affect sustainability reporting; furthermore, Apriyani and Widoretno (2024) state that ROA has no effect on sustainability report disclosure. In addition, Indrianingsih and Agustina (2020) also confirm that profitability has no effect on sustainability reporting.

The Effect of Corporate Governance on Sustainability Reporting

Corporate governance also does not have a significant effect on sustainability reporting. One reason for the insignificant effect of corporate governance on sustainability reporting is that sustainability report disclosure practices are more strongly influenced by external pressures, such as government regulations, stakeholder demands, and a company's need to maintain legitimacy in the eyes of society.

This is consistent with research conducted by Sriningsih and Wahyuningrum (2022), who state that pressure from consumers, as one of the main stakeholders, can encourage companies to improve the quality of their sustainability report disclosure. Companies that interact directly with consumers have a higher level of public visibility, making them more motivated to demonstrate social and environmental responsibility through sustainability reports in order to maintain their reputation and obtain legitimacy from society.

The Role of Firm Size in Moderating the Relationship Between Financial Performance and Sustainability Reporting

The research results show that firm size is not able to moderate the relationship between financial performance and sustainability reporting. This indicates that whether a company is large or small does not strengthen or weaken the effect of financial performance on sustainability report disclosure. This insignificance can be explained by the existence of regulations in Indonesia that require companies to prepare sustainability reports, so that both large and small companies have the same obligation to make disclosures. In addition, sector characteristics also have an influence, where consumer non-cyclicals companies tend to be more consistent in their disclosures compared to consumer cyclicals companies, which are more sensitive to economic conditions.

This finding is in line with the research of Listiani and Fadjar (2025), Indana and Pangestuti (2024), and Sitorus, Bukit, and Bulan (2024), which shows that firm size is not able to strengthen the relationship between financial performance and sustainability disclosure. Thus, firm size does not act as a moderating variable in this relationship.

The Role of Firm Size in Moderating the Relationship Between Corporate Governance and Sustainability Reporting

The research results show that firm size is not able to moderate the relationship between corporate governance and sustainability reporting. This shows that firm size does not strengthen or weaken the effect of corporate governance on sustainability report disclosure. This insignificance can be caused by the dominance of external factors, such as regulations, stakeholder pressure, and the need for social legitimacy, compared to a company's internal mechanisms.

From the perspective of legitimacy theory, sustainability disclosure is carried out to obtain social legitimacy, which does not depend on firm size, but rather on the response to societal demands. Meanwhile, stakeholder theory emphasizes that pressure on a company is influenced by public exposure and industry characteristics. In addition, the limitations of the governance indicators in this study may also have influenced the results, as several indicators were eliminated, meaning they do not yet fully represent the governance mechanism comprehensively. This finding is supported by the research of Immanuel and Sambuaga (2024), Aprianti et al. (2022), and Wahyuni (2020), which shows that not all corporate governance mechanisms have a significant effect on sustainability reporting. Thus, firm size does not act as a moderating variable in this relationship.

Conclusion

Based on the research results, it can be concluded that financial performance and corporate governance do not have a significant effect on sustainability reporting, so hypotheses (H1) and (H2) are rejected. In addition, firm size is not able to moderate this relationship, so hypotheses (H3) and (H4) are also rejected. These results indicate that sustainability reporting disclosure is more strongly influenced by other factors outside the variables examined in this study.

Recommendations

Based on these findings, future research is recommended to add other variables, such as stakeholder pressure, regulation, and corporate reputation, and to expand the research object. For companies, these results are expected to serve as a consideration for improving the quality of sustainability disclosure more comprehensively.

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