SUSTAINABILITY PERFORMANCE IMPACT OF CORPORATE PERFORMANCE IN INDONESIA BANKING

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ABSTRACT

The study empirically investigates how the sustainability performance affects corporate performance through Leverage which is moderated by managerial and institutional ownership. This research employs verification analysis and data analysis techniques based on conditional process analysis. Financial Sector Companies, especially Banks listed on the Indonesia Stock Exchange from 2018 to 2021, constitute the study population. The study's findings indicate that: Leverage mediates the impact of Sustainability Performance on Corporate Performance which is moderated by Institutional Ownership, Managerial Ownership moderates the impact of Sustainability Performance on Corporate Performance and moderating the impact of Leverage on Corporate Performance, Institutional Ownership moderates the impact of Sustainability Performance on Corporate Performance and Institutional Ownership moderates the impact of Leverage on Corporate Performance. This conclusion is crucial for decision-makers who want to maximize sustainability performance to boost business performance.

Keywords: corporate governance; sustainability performance; corporate performance; leverage; institutional ownership; managerial ownership

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INTRODUCTION

The issue of sustainability has become a global issue where the world is currently facing a crisis of energy, water and very fast population growth. Sustainable development goals are values adopted by all countries to end poverty, prosperity and protect the planet (Lu, 2021) (Tjahjadi et al., 2021). The corporate world faces challenges in order to be able to take a role in its operational activities so that it is carried out ethically and pays attention to environmental aspects, which are a requirement for companies to be financially, socially and environmentally sustainable. This requires every company to implement corporate governance in a sustainable manner. The bank's financial performance reflects all potential economic outcomes for the banking industry over a given time period (Suryanto et al., 2022).

A growing number of academics and specialists are becoming interested in the links between money and environmental sustainability (Ferreira et al., 2016). The Triple Bottom Line (TBL), which takes economic, social, and environmental variables into account at the same time, is used to define sustainability performance (Lu, 2021). (Hussain et al., 2018). Because effective implementation of good corporate governance maintains stakeholders' confidence, sustainability performance is highly reliant on the quality of corporate governance practices. (Tjahjadi et al., 2021). The environmental effect of sustainability performance, society, and economy is anticipated to be long-term (Formentini & Taticchi, 2016). The GRI has been used as an indicator by many international businesses in reporting sustainability performance (Fonseca et al., 2014). (Hussain et al., 2018).

The main goal of this study is to investigate the relationship between public banking sector businesses' sustainability practices and their financial outcomes in Indonesia. Banks are undergoing digital transformation in order to compete with the fintech sector. Banks, on the other hand, encounter several challenges in implementing digital transformation. Aside from internal finance, external parties can also pose difficulties (Kurniati & Suryanto, 2022).

To learn more about the impact of sustainability success on company performance in Indonesia, moderating variables, such as managerial and institutional ownership, and mediating variables, such as leverage, will be investigated.

Several studies both in emerging and non-emerging countries such as America, Malaysia, and Turkey have previously examined the sustainability and performance of companies moderated by corporate governance mechanisms (Lu, 2021), corporate governance and sustainability performance (Hussain et al., 2018), sustainability practices as a determinant of financial performance (Amacha & Dastane, 2017), the financial effect of the company's sustainability performance (Derg, 2018).

Corporate governance is an important and dynamic part of business. It improves firm performance and competitiveness and is a royal path to business greatness (Sakilu & Kibret, 2015). Effective planning and management are also good governance (Meyer, 2021). Corporate governance is concerned with the ethical standards of businesses (Can Inci, 2020). Empirical studies examining the relationship between corporate governance and sustainability performance are scarce, especially those examining the impact of governance on the correlation between sustainability and financial outcomes for businesses.

Investors should consider the company's success before making an investment choice (Azis & Hartono, 2017). Increased managerial and institutional ownership can enhance either the immediate or the oblique impact of sustainability success on business results through leverage on company performance.

Large and medium-sized companies around the world now routinely publish reports on corporate responsibility and sustainability. Companies risk financial, reputational, and profit losses if they don't take action to improve their sustainability practices (Lu, 2021). The sustainability performance of public banks listed on the Indonesia Stock Exchange is evaluated through a manual content study of their sustainability reports.

The interaction of leverage as one of the primary variables makes it difficult to analyze the influence of sustainability performance. Hence, researching the impact of interactions creates a great deal of data and expands our

understanding of the connection between sustainability performance and company profitability. Yet, this study only included a single interaction variable. The influence of sustainable performance on corporate performance, which is reduced by institutional ownership, will be diminished by leverage.

In this research, SPSS and PROCESS macros were used to conduct a conditional process analysis, the connection between two or more factors was determined using analysis of covariance and/or correlation. The results of this study will have far-reaching implications, unlike those of previous studies that have concentrated on the role of corporate governance in mitigating the impact of sustainability performance on firm performance. Thus, several novelties will be introduced, such as (1) the incorporation of managerial ownership and institutional ownership as moderating factors in the relationship between sustainability performance and firm performance via leverage. Both of them are types of study models with mediating effects: (3) Investigating opportunities for business in an emerging ASEAN nation. One of the models, conditional process analysis (Hayes, 2022), will serve as the foundation for the approach taken to the data analysis to back up this innovative idea.

LITERATURE REVIEW

Traditional finance theory places a premium Traditional finance theory places a premium on the creation of shareholder wealth, there has been a growing societal demand for businesses to demonstrate ethical concern for other groups to which they are accountable (Ferreira et al., 2016). Explicit recognition of the firm's decisions' social and environmental consequences will guarantee the long-term viability of the value produced (Fatemi & Fooladi, 2013). Today, the term "finance for sustainability" makes the most sense. This means it needs to be treated as an independent consideration in the quest for a sustainable society, one that is consistent with initiatives like the Sustainable Development Goals (SDG) and the Paris Agreement (Migliorelli, 2021). The importance of corporate governance in a central and dynamic part of business promotes competitiveness and is a path to achieving business success (Sakilu & Kibret, 2015). Corporate governance practices have become increasingly important in recent decades, as research has shown that corporate governance significantly influences business success (Shah & Paliwal, 2022). A successful company relies on good corporate governance (Can Inci, 2020). According to agency theory, effective corporate governance practices increase company legitimacy and financial performance (Michelon & Parbonetti, 2012) (Jo & Harjoto, 2011). Effective corporate governance restricts managerial self-interest and safeguards shareholders. interests (Jo & Harjoto, 2011). Both shareholders and managers are interested in maximizing their respective objectives (Christiawan & Tarigan, 2007). When coupled with agency theory, managerial ownership becomes a fascinating topic. This is evidenced by the high proportion of company shares owned by managers (Christiawan & Tarigan, 2007). Corporate governance from previous research investigates their impact on company performance (Adegboye et al., 2019). The corporate governance index improves financial performance (Ángel et al., 2021). Sustainability performance refers to how well an organization considers and acts upon economic, environmental, social, and political considerations in its day-to-day business (Artiach et al., 2010).

The performance of the business is the result it achieved in a given period relative to predetermined standards (Rahayu & Sari, 2018). Tobin's Q measures company performance (Agrawal & Knoeber, 1996). Large institutional ownership will have a stronger hold on the company, allowing company owners to exert greater control over management so that they act in accordance with company objectives and enhance company performance (Rahayu & Sari, 2018). The leverage variable, proxied by the debt-to-equity ratio, significantly impacts a company's performance (Rahayu & Sari, 2018). Good Corporate Governance (GCG) and Leverage are two factors that can impact a company's performance (Ronoowah & Seetanah, 2023) (Azis & Hartono, 2017). Companies with effective corporate governance are able to improve their performance.

Figure 1 illustrates the theoretical underpinnings of the study in light of the established connections between factors.

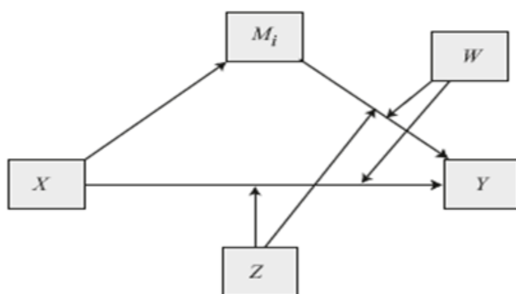

Figure 1: A Theoretical Structure
Source: Hayes, 2022.

X represents sustainability performance; M stands for debt-to-equity ratio; W stands for managerial ownership; Z is institutional ownership; Y refers to company performance.

Pursuant to above-mentioned conceptual paradigm, the research hypothesis is:

H1: Sustainability performance affects leverage.

H2: Sustainability performance affects company performance.

H3: Leverage affects company performance.

H4: Leverage mediates the effect of sustainability performance on firm performance, moderated by managerial and institutional ownership.

H5: Managerial ownership moderates the direct effect of sustainability performance on firm performance.

H6: Institutional ownership moderates the direct effect of sustainability performance on firm performance.

H7: Managerial ownership indirectly moderates the effect of sustainability performance on firm performance.

H8: Institutional ownership moderates the indirect effect of sustainability performance on firm performance.

METHODOLOGY

The study population is made up of financial sector businesses, especially banks, listed on the Indonesia Stock Exchange between 2018 and 2021. The sample of twenty companies was picked using a combination of random and targeted sampling strategies.

Table 1: Variable Operations

Variable	Indicator	Formula	Reference
Sustainability Performance (X)	Economic, Social and Environmental Performance	0= No Disclosure 1 = Disclosure	(Hussain et al., 2018)
Leverage (M)	Debt to Equity Ratio	DER $=\frac{Total\ Debt}{Total\ Equity}$	(Rahayu & Sari, 2018)
Managerial Ownership ((W)	Percentage of shares owned by Management	KM $=\frac{Share\ owned\ by\ \ Manager,BOD,BOC}{Total\ Share\ in\ Circulation}$	(Indonesia, 2019)
Institutional Ownership (Z)	Percentage of shares owned by Institutions	KI $=\frac{Total\ Share\ of\ Institutional\ Ownership}{Total\ Share\ in\ Circulation}$	(Rahayu & Sari, 2018)
Company Performance (Y)	Tobin's Q	Tobin's Q $=\frac{ME+Debt}{Total\ Asset}$	(Ervina et al., 2020)(Lu, 2021)(Agrawal & Knoeber, 1996) (Ronoowah & Seetanah, 2023)

Source: Author's compilation

Table 1 displays the operationalization of each of the variables under consideration.

The variables to be analyzed are dummy variables representing sustainable performance practices (0 = No Disclosure, 1 = Disclosure). Leverage is measured by the ratio of debt to equity, Managerial Ownership by the

proportion of shares owned by Management, Institutional Ownership by the proportion of shares owned by institutions, and Business Performance by Tobin's Q.The connection between three or more factors is then determined through a process of verification analysis. This procedure is used to determine whether or not a theory is sound. This study used SPSS and PROCESS macros for conditional process analysis to evaluate its data.

This technique can be used to test theories about the contingency of an effect and to gain insight into and define the conditional nature of a process by which one variable conveys its impact to another (Hayes, 2022). In accordance with the proposed theoretical paradigm, we will employ Hayes model version 17.

RESULTS AND DISCUSSION

The efficacy of model testing can be assessed using the t-statistic and r-square values of the path coefficient test (reliability indicator for the dependent construct). The predictive power of the proposed study model increases as r-square increases. When conducting the path coefficient value shows the degree of significance in hypothesis testing. Models with R2 values of 0.75%, 0.50%, and 0.25%, respectively, are robust, moderate, and weak. (Alghifari et al., 2022). A higher R2 shows that the proposed research model can predict future outcomes correctly.

Table 2: Determinant Coefficient

	R Square	Information
Leverage	0.0627	Moderate Models
Prior to Moderation Company performance	0.1405	Weak Models
Moderation exists. Company performance	0.6589	Moderate Models

Source: Authors' finding

Furthermore, hypothesis testing based on the given hypothesis will be carried out. Table 2 displays the coefficient of determination numbers. To extent that leverage can explain 62.7% of the variance in the firm's performance characteristics, the remaining 37.3% is explained by other constructs outside the purview of this research.

As a result, before managerial and institutional ownership are considered as moderating factors, sustainability and leverage performance can explain 6.27 percent of the variance in company performance. The R-square value increased to 65.89% after adding the moderating variable; the remaining 34.11 are unrelated constructs.

Table 3 displays the results of assessing hypotheses 1, 2, and 3 using the Bootstrap Method (Resample = 5000) according to PROCESS Macro Model 4 (Hayes, 2022). The first hypothesis, based on the findings of Table 3, indicates that sustainability performance influences firm performance. Corporate performance has no impact on sustainability performance (b = 0.2346; SE = 0.1498; p = 0.1217). As a result, H1 is debunked. This indicates that if debt-financed company assets can be managed relative to equity, sustainability performance can influence corporate performance. As a result, the debt-to-equity ratio has a positive relationship with company performance.

Furthermore, based on the findings in Table 4, the second hypothesis indicates that sustainability performance influences firm performance. H2 is rejected because there is no correlation between company performance and sustainability performance (b = 0.1183, se = 0.0915, p = 0.1998). Businesses that use sustainability strategies can reap numerous benefits, including increased company success.

The third hypothesis holds that leverage has an impact on the company's success. Based on the data in Table 3, there is a relationship between leverage and company performance (b = 0.0425; se = 0.0148; p = 0.0052); thus, Hypothesis 3 is accepted. Businesses with high leverage depend heavily on external loans to finance their assets. If a company's leverage ratio is low, a larger percentage of its assets are funded with its own capital, which has an impact on the company's performance. (Varamitha & Bambang, 2021). Companies with a high leverage ratio and strong governance procedures can improve firm performance. (Ronoowah & Seetanah, 2023).

Table 3: Testing Hypotheses 1, 2 and 3

Outcome Variable: Leverage						
Variable	b	se	t	p	Bootstrap. 95% CI	
					LLCI	ULCI
Constant	4.9835	0.4542	10.9731	0.0000	4.0792	5.8879
Sustainability Performance	1.5500	0.6787	2.2839	0.0251	0.1989	2.9012
R2 = 0.627; F=5.2161p<0.0251						
Outcome Variable: Firm Performance						
Constant	0.5637	0.0945	5.9645	0.0000	0.3755	0.7518
Sustainability Performance	0.1183	0.0915	1.2931	0.1998	-0.0639	0.3004
Leverage	0.0425	0.0148	2.8754	0.0052	0.0131	0.0719
R2 =0.1405; F=6.2954p<0.029						

Table 3 shows the PROCESS Macro Model 4 (Hayes, 2020) and Bootstrap Method (Resample = 5000) results for Hypotheses 1, 2, and 3. The fourth hypothesis states that institutional and management ownership moderate the effect of sustainability performance on firm performance. Table 5 displays the results of a mediation analysis based on the bootstrap method, which shows that leverage does not mediate the effect of sustainability performance on corporate performance when managerial ownership is a moderator, but it does when institutional ownership is a moderator. Institutional ownership indirectly affects company performance through environmental performance. H4 is approved because of Bootstrap Confidence Interval Institutional Ownership [-0.3773 to -0.0038] and Managerial Ownership (-26.5474 to 1.7799).

H1: Sustainability performance affects leverage.

H2: Sustainability performance affects company performance.

H3: Leverage has an effect on company performance.

H4: Leverage mediates the effect of sustainability performance on firm performance, moderated by managerial and institutional ownership.

H5: Managerial ownership moderates the direct effect of sustainability performance on firm performance.

H6: Institutional ownership moderates the direct effect of sustainability performance on firm performance.

H7: Managerial ownership indirectly moderates the effect of sustainability performance on firm performance.

H8: Institutional ownership moderates the indirect effect of sustainability on firm performance.

This research is consistent with Lu (2021) and Kartika (2021). Thus, as a public company in the banking sector on the Indonesian stock exchange, corporate governance will improve company performance by increasing managerial ownership and institutional ownership. Leverage mediates company performance when managerial ownership moderates it.

The fifth hypothesis asserts that managerial ownership practices mitigate the direct relationship between sustainability performance and firm performance. The results of Table 5 indicate that sustainability performance and managerial ownership interact significantly and negatively (b = -3.6479, p<0.001) in predicting company performance; hence, Hypothesis 5 is supported. Companies employ managerial ownership as a method to improve their performance. The more managerial ownership, the more carefully the company's performance will be regulated and monitored.

The sixth hypothesis concludes that institutional ownership moderates the direct relationship between sustainabilityperformance and business performance. The results of Table 5 demonstrate a negative and statistically significant association between sustainability performance and institutional ownership (b = -

0.4587, p< 0.0337) in forecasting firm performance; therefore, Hypothesis 6 is supported. The negative interaction coefficient shows that institutional ownership diminishes the impact of sustainability performance on corporate performance. With substantial institutional ownership, a company's performance can be effectively managed (Rahayu & Sari, 2018).

The seventh hypothesis is that managerial ownership indirectly modifies the connection between sustainability and company performance. Table 4 reveals that the interaction impact of managerial ownership and institutional ownership is negative and statistically significant (b = -0.0853, p > 0.0149) in predicting firm performance; therefore, H7 is accepted companies with relatively high managerial ownership are typically able to exert control over their performance. Enhanced managerial ownership facilitates the alignment of internal and shareholder interests, resulting in improved decision-making and enhanced organizational performance (Christiawan & Tarigan, 2007).

Table 4: Testing Hypotheses 4, 5, 6, 7 and 8

Outcome Variable: Company Performance						
Variable	b	se	t	p	Bootstrap. 95% CI	
					LLCI	ULCI
Constant	0.1267	0.0960	1.3206	0.1909	-0.0646	0.3181
Sustainability Performance	0.2346	0.1498	1.5662	0.1217	-0.0641	0.5332
leverage	0.0782	0.0189	4.1294	0.0001	0.0404	0.1159
Managerial ownership	18.0879	9.0673	1.9948	0.0499	0.0080	36.1677
Sustainability Performance x Managerial Ownership	17.3412	2.9006	5.9784	0.0000	11.5574	23.1249
Leverage x Managerial Ownership	-3.6479	1.8136	-2.0114	0.0481	-7.2641	-0.0317
Institutional Ownership	0.9288	0.1667	5.5730	0.0000	0.5965	1.2611
Sustainability Performance x Institutional Ownership	-0.4587	0.2118	-2.1658	0.0337	-0.8810	-0.0364
Managerial Ownership x Institutional Ownership	-0.0853	0.0342	-2.4953	0.0149	-0.1535	-0.0171

Table 4: Continued

R2 =0.6589 F=17.1433 p<0.0000						
Conditional Direct Effect: Sustainability Performance and Company Performance (X on Y)						
Mediators	**Managerial ownership**	**Institutional Ownership**	**Effects**	**se**	**Bootstrap. 95% CI**	
					LLCI	**ULCI**
Leverage	0.0000	0.2807	0.1058	0.0993	-0.0922	0.3038
	0.0000	0.6014	-0.0413	0.0645	-0.1700	0.0873
	0.0000	0.9221	-0.1884	0.0877	-0.3632	-0.0136
	0.0093	0.2807	0.2670	0.0972	0.0732	0.4607
	0.0093	0.6014	0.1199	0.0630	-0.0058	0.2455
	0.0093	0.9221	-0.0272	0.0879	-0.2025	0.1480
	0.0379	0.2807	0.7624	0.1314	0.5004	1.0243
	0.0379	0.6014	0.6153	0.1117	0.3925	0.8380
	0.0379	0.9221	0.4682	0.1301	0.2087	0.7276
Conditional Indirect Effect : Sustainability Performance and Company Performance (X – M – Y)						
Mediators	Managerial ownership	Institutional Ownership	effects	se	Bootstrap. 95% CI	
					LLCI	ULCI
Leverage	0.0000	0.2807	0.0840	0.0402	0.0144	0.1717
	0.0000	0.6014	0.0416	0.0285	-0.0177	0.0935
	0.0000	0.9221	-0.0008	0.0451	-0.1321	0.0592
	0.0093	0.2807	0.0315	0.0901	-0.1377	0.1539
	0.0093	0.6014	-0.0109	0.0881	-0.1992	0.0742
	0.0093	0.9221	-0.0533	0.0972	-0.2862	0.0321
	0.0379	0.2807	-0.1300	0.3661	-0.8831	0.1863
	0.0379	0.6014	-0.1724	0.3676	-0.9454	0.1063
	0.0379	0.9221	-0.2148	0.3717	-1.0075	0.0491
Indices. of partial moderated mediation						
Moderators.	Index			se	Bootstrap. 95% CI	
					LLCI	ULCI
Managerial ownership			-5.6544	9.8975	-26.5474	1.7799
Institutional Ownership			-,1322	,0993	-,3773	-.0038

Source: Author's finding

The eighth hypothesis proposes that institutional ownership modifies the indirect relationship between sustainability performance and corporate performance. Table 5 demonstrates that the effects of leverage and institutional ownership on firm performance are negative and statistically significant (b = -0.4587, p0.0337), indicating that hypothesis H8 is accepted. The impact of leverage on a company's success can be boosted by institutional ownership. Companies with a high level of institutional ownership will surely be easy to manage. This boosts the firm's performance.

CONCLUSION

From 2018-2021, we analyze the impact of sustainability performance on business performance in banking firms traded on the Indonesia Stock Exchange, focusing on how management ownership and institutional ownership affect the use of leverage. For this study, we utilize both verification and technological data analysis through conditional process analysis. According to the research, the implications of sustainability performance on corporate performance are moderated by managerial ownership and institutional ownership. Managerial control can mitigate the negative effects of leverage and amplify the positive effects of sustainable business practices on a company's bottom line.

Corporate performance, environmental

performance, and leverage are all diminished by institutional ownership. The effect of corporate performance on sustainability is moderated by institutional ownership and leverage. There is evidence that suggests a negative correlation between institutional ownership and long-term business performance. When it comes to the effect that corporate performance has on sustainability, institutional ownership and leverage, both serve as buffers.

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