

GOOD CORPORATE GOVERNANCE MODERATES THE EFFECT OF ENVIRONMENTAL PERFORMANCE AND SOCIAL PERFORMANCE ON FINANCIAL PERFORMANCE

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ABSTRACT

This study aims to determine the effect of environmental performance and social performance on financial performance with good corporate governance as a moderating variable. This research was conducted on service companies listed on the Indonesian Stock Exchange (IDX) during 2017-2021. This type of research is quantitative research with a sampling technique using a purposive sampling method. The type of data used in this study is secondary data obtained from annual reports and sustainability reports obtained indirectly through intermediaries or internet media. Data analysis in this study used descriptive analysis, classical assumption testing, multiple linear regression analysis, and moderate regression analysis (MRA). The results showed that: environmental performance affects financial performance, social performance affects financial performance, Good Corporate Governance strengthens the influence of environmental performance on financial performance, and Good Corporate Governance weakens the impact of social performance on financial performance.

Keywords: Environmental Performance, Social Performance, Financial Performance, Good Corporate Governance

INTRODUCTION

Investment has a very strategic position in the level of economic development of a country. The company sector that investors are now interested in investing in is the service sector company. The main sector of investment choice in the last five years has shifted from the manufacturing sector to the service sector (Setiawan, 2020). Investors will conduct research on the company to find out the company's potential for profit.

However, currently service sector companies are the sector companies that experience the most financial difficulties. On March 17, 2020 IDX gave a special notation to several listed companies. There are 38 companies that get a special notation, most of the companies with negative equity (E) notation are 26 companies. Companies that have negative equity are dominated by service companies, namely 15 companies. Companies that experience negative equity indicate that the company is experiencing financial difficulties because it is unable to pay its obligations.

The company's financial performance (Sudarno, Renaldo, Hutahuruk, Junaedi, & Suyono, 2022) indicators can be used to predict the company's condition in the future. This indicator is obtained from the analysis of financial ratios contained in the financial statement information (Chandra, Renaldo, & Putra, 2018) issued by the company. Return on Equity (ROE) is a ratio calculation that shows the company's ability to generate net income using its own capital and generate net income available to owners or investors.

Companies operate not only for profit, but must provide benefits to their stakeholders. One form of corporate responsibility to stakeholders is the disclosure of corporate sustainability through sustainability reports. The sustainability report includes environmental performance (Renaldo & Augustine, 2022) and social performance. Companies that are able to show and disclose their environmental and social performance will give a good image to stakeholders so that there are several benefits to the company such as customer loyalty and trust from creditors and investors.

Quoted from the National Center for Sustainability Reporting, as many as 15 service companies were included in the ranking list of 34 companies in 2019. This shows that service sector companies have a fairly high awareness of disclosing sustainability reports and have good disclosure quality. However, on the other hand,

currently some service companies still get a negative equity notation. Previous studies have studied the influence of environmental performance and social performance on financial performance but yielded different results. Good financial performance reflects that the company is also able to gain profits in its business operations. The implementation of good corporate governance (Yusrizal, Renaldo, & Hasri, 2021) in the company's performance is the key to success for companies to gain long-term profits and be able to compete.

One of the company's share ownership which is included in corporate governance is institutional ownership. According to Wening (2009), institutional ownership is one of the factors that can affect the company's performance. Institutional ownership is an institution, institution, or external party that also owns shares in a company. Institutional ownership is used as a moderating variable in this study because institutional ownership is considered to have authority in monitoring management performance. So that this can improve (Renaldo, Sudarno, & Hutahuruk, 2020) the company's financial performance.

The theories that support environmental performance and social performance and their relation to financial performance are stakeholder theory and legitimacy theory. In addition, the theory that supports the influence of good corporate governance as a moderating variable is agency theory. Stakeholder theory emphasizes the sustainability of the company formed by the harmonization of the company with stakeholders. Legitimacy theory emphasizes public acceptance of the company (Deegan, 2004). Agency theory is concerned with the relationship between the owner (principle) and management (agent).

This research was conducted based on the phenomenon that occurred, namely service companies that have attracted investors since the last five years, but currently most of the companies affected by the negative notation by the IDX due to negative equity are service companies. So that researchers want to study to solve the problem of financial difficulties in service companies by improving company performance, especially environmental performance and social performance, so that service companies can mitigate their financial difficulties and remain a company sector that is of interest to investors. In addition, the presence of institutional ownership in the company is considered to be able to affect the company's performance, so that institutional ownership is used as a moderator in this study.

LITERATURE REVIEW

Environmental performance is a company's performance that focuses on company activities in preserving the environment and reducing environmental impacts arising from company activities. In accordance with stakeholder theory, the company provides an overview to which party the company is responsible for (Freeman, 2001). Disclosure of sustainability reports is expected to fulfill the wishes of stakeholders. Disclosure of sustainability reports in which it discloses economic performance, environmental performance, and company performance is expected to be a medium to gain legitimacy from the community in accordance with legitimacy theory.

Research conducted by Rosyid (2015), states that there are environmental and social performance impacts on financial performance simultaneously. This is in line with research by Bukhori (2017) and Rahmawati (2017), which state that environmental performance has a significant positive effect on financial performance. Contrary to research conducted by Raiyani et al (2019), it is stated that environmental performance does not have a significant effect on financial performance.

H1: Environmental performance has a positive effect on the company's financial performance.

Social performance is a company's activities in carrying out a form of social responsibility (Suyono, Suhardjo, Renaldo, Sudarno, & Sari, 2021) in addition to carrying out company operational activities. Stakeholder theory explains that the company will provide an overview to which party the company is responsible for (Freeman, 2001). Disclosure of sustainability reports is expected to fulfill the wishes of stakeholders so that it will result in a good relationship between the company and its stakeholders. Legitimacy theory asserts that a company continues to strive to ensure that the company's operations are always in accordance with the norms that exist in the society or environment the company is in.

Social performance has a significant positive effect on financial performance. In line with research conducted by Natalia (2014), Isnaeni (2018), Adil (2019), states that the disclosure of social responsibility has a significant positive effect on the company's financial performance. Contrary to research conducted by Sari (2019) and Hidayah (2019) states that social performance has no effect on financial performance.

H2: Social performance has a positive effect on the company's financial performance.

Disclosure of environmental performance is one of the descriptions of management performance in managing the company. Based on agency theory, it explains the relationship between owner (principle) and management (agent). The GCG mechanism will be useful in regulating and controlling the company to minimize agency conflicts so as to create positive value for all stakeholders. Institutional ownership is one of corporate governance which is the largest shareholder so that it can be a means to monitor management performance (Machmud, 2008).

Research by Permatasari (2020) states that the GCG variable as proxied by institutional ownership has no effect on strengthening or weakening CSR disclosure as measured by the economic, environmental, and social dimensions of financial performance (ROE). Corporate governance as a proxy for institutional ownership has a significant effect as a moderating variable on the effect of CSR disclosure on the company's financial performance (ROE). Research from Merawati (2015) also reveals that good corporate governance moderates the effect of environmental performance on financial performance.

H3: Good corporate governance strengthens the influence of environmental performance on the company's financial performance.

Agency theory explains the relationship between the owner (principle) and management (agent). The GCG mechanism will be useful in regulating and controlling the company to minimize agency conflicts so as to create positive value for all stakeholders. Management performance monitoring can be carried out by institutional investors.

Disclosure of social performance is a form of delivering information to stakeholders and social performance is also a medium for companies to gain legitimacy from the community. Research by Neubaum et al (2015), which states that institutional ownership has a positive moderating effect on long-term social performance relationships. Contrary to research conducted by Shafariani (2013) which states that good corporate governance weakens the influence of corporate social responsibility on financial performance.

H4: Good corporate governance weakens the influence of social performance on the company's financial performance.

METHODOLOGY

This research was conducted with a quantitative approach. The population of this study is the service sector companies listed on the Indonesia Stock Exchange (IDX). The sampling technique is purposive sampling with a total sample of 9 non-financial service companies for the period 2017-2021. Financial services companies are not used as samples because the reports of financial services companies have more specific reports. The source of data in this study is secondary data. The data used in this study were obtained from the annual report and sustainability report of non-financial service companies that became the research sample.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Stdev
EnvP	45	0.122	0.420	0.254	0.082
SosP	45	0.148	0.504	0.335	0.093
GCG	45	0.508	0.635	0.576	0.045
FS	45	22.281	20.405	21.236	0.095
ROE	45	0.118	0.306	0.243	0.052

Source: Secondary Data Processed, 2022

Based on the results of descriptive statistical tests, it is stated that the average environmental performance variable is 0.254, the lowest is 0.122, the highest is 0.420, and has a standard deviation of 0.082. The social performance variable has an average of 0.335, the lowest is 0.148, the highest is 0.504, and has a standard deviation of 0.093. Good corporate governance variable has an average of 0.576, the lowest is 0.508, the highest is 0.635, and has a standard deviation of 0.045. The dependent variable, namely ROE (Y) has an average of 0.243, the lowest is 0.118, the highest is 0.306, and has a standard deviation of 0.052.

Classic Assumption Test

The data normality test was conducted to determine whether the data were normally distributed or not. The normality test with the One Sample Kolmogorov-Smirnov Test on models 1 and 2 shows values of 0.725 and 0.532 with a significance value of 0.677 and 0.935 where this value is more than 0.05, which means the residual values in models 1 and 2 are normally distributed.

Multicollinearity test was conducted to test whether the regression model found a correlation between the independent variables (independent). Based on the test results, it is known that in model 1 all independent variables have a VIF value less than 10 and a tolerance value greater than 0.10, so that it is free from multicollinearity. Meanwhile, in model 2, it is known that all independent variables also have a VIF value greater than 10 and a tolerance value less than 0.10, resulting in multicollinearity. Regression with Moderate Regression Analysis (MRA) generally causes high multicollinearity problems between independent variables. This is due to the existence of a moderating variable with an element of multiplication of independent variables (Liana, 2009). So this can be ignored in the second model.

The results of the heteroscedasticity test using the Glesjer test show that each independent variable of environmental performance and social performance has a significance value of 0.262 and 0.139. Each variable has a significance value of more than 0.05 so it can be concluded that there is no symptom of heteroscedasticity in the regression model 1. In model 2 each independent variable is environmental performance, social performance, good corporate governance, interaction of environmental performance and good corporate governance, social performance interaction and good corporate governance have significance values of 0.272, 0.276, 0.682, 0.281, and 0.293. Each of these variables has a significance value of more than 0.05 so there is no heteroscedasticity symptom in the regression model 2.

The autocorrelation test is a test to assess whether in the linear regression model there is a correlation between the confounding error in period t and the confounding error in period t-1 (previous). Based on the results of the autocorrelation test in model 1, it is known that the Durbin-Watson value is 1.802 with 2 independent variables ($k = 2$) and 45 data ($n = 45$), so the dU value in the DW table in the attachment is 1, 6148. While the value of $4-dU = 4 - 1.6148 = 2.3862$. So it can be concluded that $dU < d1 < 4-dU$ ($1.6148 < 1.802 < 2.3862$), it can be concluded that there is no autocorrelation, positive or negative in model 1. Based on the results of the autocorrelation test in model 2, it is known that the Durbin-Watson value is 2.177 with the number of independent variables as much as 5 ($k = 5$) and the amount of data as much as 45 ($n = 45$), so the value of dU is 1.7762. While the value of $4-dU = 4 - 1.7762 = 2.2238$. So it can be concluded that $dU < d1 < 4-dU$ ($1.7762 < 2.177 < 2.2238$) so it can be concluded that there is no autocorrelation, positive or negative in model 2.

Multiple Linear Regression Analysis

Table 2. Multiple Linear Regression Test Results

Model	B	t	Sig
(Constant)	0.061	5.152	0.000
EnvP	0.177	2.511	0.018
SosP	0.407	6.257	0.000
Adjusted R Square	0.830		

Source: Secondary Data Processed, 2022

Hypothesis testing was carried out using multiple regression models. In the regression model, one independent variable is environmental performance.

$$\text{FinP} = 0.061 + 0.177 \text{ EnvP} + 0.407 \text{ SosP}$$

The results of the analysis of the coefficient of determination before moderation show that the R Square value is 0.830 which indicates that the variation of the Environmental Performance and Social Performance variables is only able to explain 83% of the variation in the Financial Performance variable. The remaining 17% is influenced by other factors outside of this study that can affect Financial Performance. The t-test shows how far the influence of the independent variable on the dependent variable is by assuming the other variables are constant (Ghozali, 2011). The test was carried out with a significance level of 0.05 ($\alpha=5\%$). Based on the results of the t statistical test that has been carried out, the significance value of the environmental performance variable is $0.018 < 0.050$ which indicates that the environmental performance variable has a significant effect on financial performance. The social performance variable has a significant value of $0.000 < 0.050$ which indicates that the social performance variable has an effect on financial performance.

Moderated Regression Analysis

Moderated Regression Analysis (MRA) is a special application of multiple linear regression in which the equation contains elements of interaction (the relationship of two or more independent variables) which will later have the effect of strengthening or weakening an equation (Liana, 2009). The results of multiple regression analysis after being moderated (Model 2) are presented in Table 3. Based on the calculation of the regression model 2, the results of the regression equation are as follows:

$$\text{FinP} = -0.292 - 2.952 \text{ EnvP} + 3.619 \text{ SosP} + 0.641 \text{ GCG} + 5.449 \text{ EnvP} * \text{GCG} - 5.631 \text{ SosP} * \text{GCG} + 0.291 \text{FS}$$

Table 3. Moderate Regression Analysis Test Results

Model	B	T	Sig.
(Constant)	-0.292	-1.812	0.071
EnvP	-2.952	-3.432	0.003
SosP	3.619	5.053	0.000
GCG	0.641	2.170	0.032
EnvP * GCG	5.449	3.575	0.003
SosP * GCG	-5.631	-4.525	0.000
Firm Size	0,291	0.760	0.449
Adjusted R Square	0.908		

Source: Secondary Data Processed (2022)

Based on the results of the Moderated Regression Analysis (MRA) test that has been carried out, it can be concluded that in the third hypothesis test the significance value of the moderating variable Good Corporate Governance on the relationship between Environmental Performance and Financial Performance is $0.003 < 0.05$. Judging from the regression coefficient value of 5.449, it is positive, which means that the moderating variable of Good Corporate Governance strengthens the influence between Environmental Performance and Financial Performance.

In the fourth hypothesis test, the significance value of the moderating variable Good Corporate Governance on the relationship between Social Performance and Financial Performance is $0.000 < 0.05$. Seen from the regression coefficient value of -5.636, it is negative, which means the moderating variable Good Corporate Governance weakens the relationship between Social Performance and Financial Performance. Before entering the moderating variable Good Corporate Governance the value of R Square is 0.837 and after entering the moderating variable Good Corporate Governance the value is 0.908. So that there is an increase in the ability of the independent variable in influencing the dependent variable due to the moderating variable. Thus, Good Corporate Governance can moderate the relationship between Environmental Performance and Social Performance variables on Financial Performance.

The Effect of Environmental Performance on Financial Performance

Based on the results of statistical tests, environmental performance has a positive effect on financial performance. In accordance with stakeholder theory, disclosure of environmental performance is a medium for harmonization of stakeholder relations with the company. A good response will form a better corporate image, so the loyalty of consumers and stakeholders will be higher. The form of this response is by providing funding for the company which will be used to increase production and sales so as to increase the company's profitability (Rosyid, 2011).

Companies that are able to show good environmental performance will increase the interest of potential investors and stakeholders. Investor interest is formed because of investor confidence in the company because it has a relatively low environmental risk. Companies that have carried out environmental management well will be accepted by the community in accordance with the theory of legitimacy. In line with research conducted by Bukhori (2017), Rahmawati (2017), Rosyid (2015) stated that environmental performance has a positive influence on financial performance.

The Effect of Social Performance on Financial Performance

Based on the results of statistical tests, social performance variables have a positive effect on financial performance. In accordance with the theory of legitimacy, the company will always ensure that its operating activities can be accepted by the community. In addition, this disclosure will also provide benefits and fulfill stakeholder demands in accordance with stakeholder theory. The social performance disclosed by the company relates to employment, human rights, society, and product responsibility. This shows that the disclosure of social performance is not only useful to gain legitimacy from the community outside the company, but the workforce

also benefits from this disclosure. Disclosure of social performance shows the form of corporate responsibility towards workers and human rights so that it will create the spirit of the workforce in carrying out their obligations (Hendarti, 2006). The spirit of the workforce and the fulfillment of human rights will form loyalty in work so as to improve the company's operations which lead to increased profits. Some researchers argue that social performance improves financial performance attracts skilled employees and reduces risk (Maqbool et al, 2018). This will form a positive image of the company will affect sales which then increase company profits.

The results of this study indicate that social performance has a positive effect on the company's financial performance. In line with research conducted by Natalia (2014), Isnaeni (2018), Adil (2019) which states that social performance has a significant positive effect on financial performance.

Good Corporate Governance Strengthens the Effect of Environmental Performance on Financial Performance

Moderate Regression Analysis (MRA) shows that the existence of good corporate governance as a moderating variable can increase the positive influence between environmental performances on financial performance. According to GRI standards, the environmental dimension is where the company's impacts are related to air, land, water, and ecosystems. Disclosure of environmental performance is in accordance with stakeholder theory, where the company has a responsibility to stakeholders. In addition, the disclosure of environmental performance is related to the theory of legitimacy, where companies must be able to establish relationships to create a good environment in accordance with the norms prevailing in society. The disclosed environmental performance is said to be a form of company transparency to stakeholders. Corporate transparency needs to be applied to avoid information asymmetry, this is related to agency theory that management is sometimes concerned with its own interests which in turn raises conflicts of interest.

Good corporate governance has a controlling (Renaldo, Sudarno, & Hutahuruk, 2020; Renaldo, Sudarno, Hutahuruk, Suyono, & Suhardjo, 2021) role and overcomes selfish management behavior (Merawati, 2015). According to Wening (2009), institutional ownership is one of the factors that can affect the company's performance. Institutional ownership encourages tighter supervision in the implementation and disclosure of environmental performance (Merawati, 2015). Companies that have good transparency tend to be easily traded because of the high interest from investors in the company. Investors' interest will create investors' funding decisions for the company. This will then affect the company's financial performance.

Institutional ownership affects the relationship of corporate social responsibility to financial performance. Merawati (2015) also revealed that good corporate governance moderates the effect of environmental performance on financial performance.

Good Corporate Governance Weakens the Effect of Social Performance on Financial Performance

Moderate Regression Analysis (MRA) shows that the presence of a good corporate governance variable as a moderating variable can reduce the positive influence between social performances on financial performance. In accordance with GRI standards, broadly speaking, the social dimension includes disclosure of company performance regarding employment, human rights, society, and product responsibility. Companies publishing social performance disclosures are a form of accountability and transparency to stakeholders related to stakeholder theory. Furthermore, the social performance applied by the company becomes a media for the company's legitimacy with the community. Institutional ownership has an important meaning in monitoring management with more optimal supervision.

The form of supervision carried out in order to create transparency is by implementing and disclosing corporate social responsibility which includes social performance. Social performance has a different reputation impact because this impact depends on the place of the company (Brammer et al, 2006). The company has to pay a number of costs for the funding of these monitoring and activities in disclosing CSR. So this will reduce the amount of income and then affect the company's financial performance (Shafariani, 2013).

The costs of social performance incurred by service sector companies will be greater because the operations of service companies are mostly related to social, community, customer satisfaction, and labor compared to the environment. The type of company has an effect on the company's return (Herawati, 2016). The number of social performance disclosure items is higher with environmental performance according to the GRI-4 and GRI Standards standards. This will affect the amount of costs that will be incurred by the company if the company discloses environmental and social performance.

As for the stages after social performance affects the value of the company, then it will affect the market response, continuing to affect financial performance. This happens in the long term so that in the short term social

performance has not been able to improve financial performance (Bukhori, 2017). Based on research conducted by Mercuri (2019), it is stated that social performance can weaken financial performance due to the emergence of the failure of the purpose of transparency with CSR disclosure, this is because the reaction of market participants has not responded well to the CSR information provided in the sustainability report. The results of this study are in line with research conducted by Shafariani (2013) which states that good corporate governance weakens the influence of corporate social responsibility on financial performance. The results of this study contradict the research by Neubaum et al, 2015 which states that institutional ownership has a positive moderating effect on long-term social performance relationships.

CONCLUSIONS AND RECOMMENDATION

Conclusion

Based on the results of data analysis and discussion, the following conclusions are drawn: Environmental performance has a positive effect on financial performance. Disclosure of good environmental performance will give a positive image of the company so that investors are interested in investing which will then affect the company's financial performance.

Social performance has a positive effect on financial performance. Disclosure of good social performance will provide trust and build good relations with the community and consumers. In addition, the workforce will be more enthusiastic and loyal to the company because of their good social performance. This will further improve the company's operations which will lead to an increase in company profits.

Good corporate governance strengthens the influence of environmental performance on financial performance. The existence of good corporate governance will encourage a form of management transparency, one of which is the disclosure of environmental performance. Companies that have good transparency tend to be easily traded because of the high interest of investors in the company.

Good corporate governance weakens the influence of social performance on financial performance. The form of supervision through good corporate governance in order to create transparency is by implementing and disclosing CSR. But on the other hand, in implementing CSR, of course, companies must spend a number of costs for funding activities and monitoring CSR activities. So this will reduce the amount of income and then affect the company's financial performance. In addition, the costs of social performance incurred by service sector companies will be greater than those of the environment.

Recommendation

The company is expected to be able to improve the company's performance not only on the economic aspect, but also pay attention to the environmental and social aspects. The company must also be able to consider the costs used and the appropriate response so that the objectives of the issuance of the sustainability report can be achieved. Company stakeholders, especially investors, are expected to always pay attention to environmental performance and social performance as a material consideration in making investment decisions. Future researchers are expected to be able to develop this research by using other variables that are not used in this study and of course using data from the more recent year period.

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