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GENERAL MANAGEMENT

Corporate Sustainability and Good Corporate Governance Practices Impact On the Performance of Environmentally-Based Public Companies in Indonesia

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Abstract

This study investigates the impact of corporate sustainability and good corporate governance (GCG) practices on the performance of environmentally-based public companies listed on Indonesia's SRI KEHATI index. Using a sample of 25 companies over 2020–2024 and employing Smart PLS4 for analysis, the study examines: (1) the influence of corporate sustainability and GCG on capital structure; (2) their direct and indirect effects on firm performance through capital structure as a mediating variable; and (3) the direct effect of capital structure on firm performance. Corporate sustainability is measured via Global Reporting Initiative (GRI) compliance, while GCG is proxied by the proportion of independent commissioners.Findings reveal that both corporate sustainability and GCG have significant positive effects on capital structure, suggesting that higher sustainability and governance standards enable more effective and transparent financial decision-making. However, corporate sustainability alone does not significantly affect firm performance. Notably, both corporate sustainability and GCG, when mediated by capital structure, exhibit significant negative effects on firm performance—indicating that an increased focus on capital structure may inversely impact performance. Directly, GCG positively affects firm performance, while capital structure itself negatively influences performance, highlighting the risk associated with high debt levels. These results underscore the complexity of balancing sustainability, governance, and financial structure to optimize performance in environmentally conscious firms. The study contributes to the ongoing debate on the effectiveness of sustainability and governance initiatives in enhancing firm value, especially within emerging markets.

Keywords: *Corporate sustainability, Good Corporate Governance, Capital Structure, Firm Performance, Public Companies*

Introduction

The company makes efforts to achieve the goals that have been set each year by using a well-considered strategy. This condition indirectly affects the company's financial state in order to achieve a healthier financial position and attract investors' purchasing interest (Lassala et al., 2021). The SRI KEHATI index company is a go-public company that is dedicated to maximizing profits and enhancing the welfare of shareholders to enhance the company's performance, which will have a long-term impact on the company (Lassala et al., 2021)(Purbawangsa et al., 2020).

Several studies have identified a research gap, as stated by authors such as (Chow et al., 2018; Nuraeni et al., 2024; Shehadeh et al., 2022) who reported that there is no significant positive effect of good corporate governance on capital structure. The study conducted by (Hunjra et al., 2020) also found that there is no effect of corporate sustainability on firm performance through capital structure as a mediating variable. Similarly, (Ferriswara et al., 2022) stated that good corporate governance does not affect firm performance. There is no effect of good corporate governance on firm performance through capital structure as a mediating variable, as found in studies conducted by (Chabachib et al., 2020; Itan & Chelencia, 2022; Septianto, 2017). In addition, several studies have stated that there is no effect of capital structure on firm performance, as reported by (Ansca et al., 2019; Ferriswara et al., 2022; Ibad & Oktaviana, 2024)

Capital structure is one of the things that must be considered by company executives; the existence of a capital structure will aid in the development of the company and increase the company's profitability, allowing the company to achieve a predetermined target (Ahmed & Afza, 2019; Ayaz et al., 2021). The management will indirectly influence the capital structure, which will increase the company's profitability (Mathur et al., 2021). Capital structure focuses on corporate funding connected to assets and the mix of equity and debt that the company can subsequently use to finance itself (Al-Haddad, 2024; Le & Phan, 2017). This is an essential decision since it will affect the firm's profitability and performance, allowing the company to reach an optimal capital structure and maximize value (Al Amosh et al., 2024).

Company growth and increasing competition have made the business environment more competitive. The implementation of corporate sustainability serves as one of the company’s efforts to remain resilient amid such competition, even under unstable conditions. This implementation involves structured efforts within the company aimed at minimizing the negative impacts related to environmental and social aspects (Bezerra et al., 2021). The global business environment drives companies to innovate in order to build corporate growth, which in turn affects firm performance (Khan & Liu, 2023; Lin et al., 2022; Tsalis et al., 2020). The Global Reporting Initiative, or GRI, is said to be an internationally standardized and recognized framework that plays a role in indicating company assessments of ESG directly without interference from other parties (B. Li et al., 2024).

Corporate Sustainability can be evaluated by implementing an application that has an important role, such as the Global Reporting Initiative, which has been formed by an international standard organization (Bezerra et al., 2021). The implementation of GRI provides benefits for companies both in terms of costs and can have an impact on improving the company's reputation towards shareholders; companies with GRI implementation are considered to have a higher chance of achieving an assessment of the company both nationally and internationally (Bananuka et al., 2022).

In the current state of the economy, the implementation of effective corporate governance is an essential factor in the success of companies, as well as in the well-being of society. This is the fundamental principle of agency Theory, which posits that the relationship between the principal or proprietor and the party receiving authority, such as the agency or manager, is either one of giving or receiving authority. The public's perception of the company's management is significantly impacted by the effective implementation of effective corporate governance, which in turn can reduce the occurrence of adverse events in society (Choi et al., 2020; Mansour et al., 2023). The company will indirectly provide essential points such as corporate responsibility towards stakeholders. The company's board of directors and commissioners must also take into account and superintend corporate governance, as it is also a signal to shareholders (Ronoowah & Seetanah, 2022; Wijaya & Memarista, 2024).

The Good Corporate Governance policy is one way to have a good impact on market performance, which is considered to have an efficient impact (Hasudungan & Bhinekawati, 2022). This can result in a balance that incorporates multiple stakeholders within the company, such as the agent and the principal, to reduce the company's agency conflict (Ngatno et al., 2021; Ronoowah & Seetanah, 2022). Good corporate governance that is carried out accordingly will indirectly affect the company's financial and stakeholder parties so as to produce maximum profit (Altin, 2024). Companies implementing good corporate governance and capital structure wisely will indirectly have a positive impact on company performance. However, when the company is unsuccessful in implementing these two things or not in line with predetermined regulations, it will have an impact that is considered harmful, which can indirectly make the company lose, especially in corporate finance.

Hypothesis Development

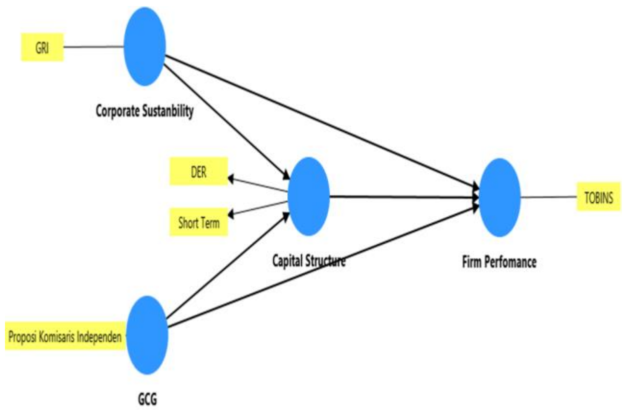

Figure 1. Hypothesis

Corporate Sustainability refers to the company's ability to carry out operations that are considered adequate to have an impact in meeting the needs and expectations of stakeholders and society that are useful in the long term (Kong et al., 2023). GRI-based corporate sustainability measurement has an impact on capital structure in the short and long run. The company will analyze its Sustainability, which is regarded as more helpful to the company and can attract new possible investors, where potential investors will review the company's existing finances in relation to the application of the company's capital structure. Effective GRI implementation in the firm demonstrates effective company management since they are more concerned with the dangers that will arise while dealing with corporate finances.

H1: The Effect Corporate Sustainability on Capital Structure

The effective and suitable implementation of Good Corporate Governance significantly impacts the company's future funding decisions (Feng et al., 2020). Properly executed Corporate Governance creates favorable responses from shareholders, and its effective execution encourages management to pursue more substantial investments (Ferriswara et al., 2022). The proportion of independent commissioners has an impact on the company's managerial supervision, which can later influence capital structure decision-making by avoiding greater risk and exemplary implementation, which can provide decisions by taking new equity versus debt financing (AA Zaid et al., 2020; Javaid et al., 2023). Capital structure is a significant and strategic choice for the firm; it refers to the structure of the company's finances, which will affect the company's finances in the future.

H2: The Effect Good Corporate Governance on Capital Structure

Corporate sustainability strategies focus on producing long-term advantages for stakeholders by adopting social, environmental, and economic good (Frempong et al., 2021). Good execution creates a favorable reputation, which attracts new investors to make investment decisions. Furthermore, corporate Sustainability influences the usage of more efficient operational expenses, allowing for higher financial performance margins.

H3: The Effect of Corporate Sustainability on Firm Performance

Corporate sustainability—defined as the firm's capacity to conduct operations that meet the long-term needs and expectations of stakeholders and society (Kong et al., 2023)—is increasingly measured through the Global Reporting Initiative (GRI) framework. Effective GRI implementation signals robust corporate governance and proactive risk management, which enhance transparency, reduce information asymmetry, and strengthen investor confidence. Consequently, firms that achieve higher sustainability scores are expected to experience superior financial and non-financial performance, both in the short run (through improved access to capital) and in the long run (via sustained competitive advantage). Thus, the hypothesis posits that greater levels of corporate sustainability, as quantified by GRI-based metrics, are associated with higher firm performance.

H4: The effect of Corporate Sustainability on Firm Performance through Capital Structure as a mediating variable

Good corporate governance is essential for businesses; this is a mechanism for minimizing conflicts against agencies by aligning stakeholders so that they can assess the performance of a company (Gultom & Gunawan, 2020). This is one of the company systems that contribute to creating additional value for stakeholders (Wendry et al., 2023). Companies that implement successfully will immediately demonstrate that they have strong management, which will lead to improvements in excellence and a competitive influence on investment decisions made by potential investors (Mansour et al., 2023).

Management of internal parties carried out by the company has an influence on firm performance; besides that, Good Corporate Governance is one of the primary mechanisms for influencing firm performance (Alabdullah et al., 2022). The implementation of environmental performance by the company has an impact on the capital structure that will be used by the company with the risks it will face and decisions in debt management that affect firm performance (Kalash, 2021).

H5: Effect of Good Corporate Governance on Firm Performance

Good corporate governance (GCG) is characterized by transparent decision-making, effective board oversight, alignment of interests between shareholders and managers, and robust internal controls (e.g., agency theory). These mechanisms reduce information asymmetry, mitigate agency conflicts, and enhance stakeholder confidence, thereby facilitating more efficient allocation of resources and lower cost of capital (J. Li & Li, 2025). Consequently, firms that adhere to high GCG standards are expected to achieve superior financial and non-financial outcomes, reflected in higher profitability, market valuation, and overall firm performance.

H6: The effect of Good Corporate Governance on Firm Performance through Capital Structure as a mediating variable

Capital Structure is one of the strategic decisions associated with the phases that might decide a decision to be made on the financing carried out by the firm by looking at the value of environmental elements that exist inside the company (Javaid et al., 2023). Good capital structure management will have a direct impact on the company's performance; the company will compare the decisions made in determining debt, such as the value of interest obtained, which will affect the company's performance (Ansca et al., 2019; Putri & Willim, 2024).

H7: Effect of Capital Structure on Firm Performance

Capital structure significantly influences firm performance, with firms maintaining an optimal balance between debt and equity demonstrating superior financial outcomes, including enhanced profitability, improved market valuation, and greater operational efficiency, in contrast to those with imbalanced or suboptimal capital compositions(Ronoowah & Seetanah, 2024).

Data and Methodology

This study used secondary data taken from 2020 - 2024 companies that have been listed on the SRI KEHATI index. The number of samples used in this study was 25 companies using non-probability sampling techniques. Data was collected through the websites of each company and Bloomberg. This study used SMART PLS to test the relationship between variables and whether there is a significant influence or not. The measurement in this study had several variables, such as the independent variable is Corporate Sustainability and Good Corporate Governance. The dependent variable used Firm Performance, as well as the mediating variable Capital Structure.

(Bravo-Urquiza & Reguera-Alvarado, 2025; Lee, 2023) argued that business sustainability may be quantified through corporate sustainability performance utilizing dummy factors. This study used the GRI, which has a role in helping companies to report on corporate sustainability reporting. GRI has conducted an assessment by establishing three Universal Standards that have been determined. The GRI measurement uses a binary scale of 1 and 0, where a value of 1 indicates the company's adherence to GRI standards, and a value of 0 signifies non-compliance with international standards (Luque-Vílchez et al., 2023), GRI data is obtained through Bloomberg data retrieval.

Effective Corporate Governance is assessed by the ratio of independent commissioners, defined as the number of independent commissioners relative to the total number of board members. Research by (BS, Abishanth Banerejhee, 2025) indicated that independent commissioners can oversee the firm and offer advice and suggestions to a more impartial board of directors. This proxy calculates the number of commissioners on the company's board, where the ratio of independent commissioners can be obtained from publicly available corporate governance reports or annual reports.

(Serrasqueiro et al., 2022) stated that short-term debt is debt that contributes to the company's external funding sources. This can reduce the level of debt, and this ratio is also considered the proper capital structure. The calculation for the short term is as follows. A picture that has a relationship with investors is the Debt-to-Equity Ratio, which impacts dividends. A high DER value is indicative of a high composition of debt possessed, which influences the company's performance and the decisions of investors when making investments. This high value will relate to the interest expense owned by the company, so investors tend to choose companies with low DER values, which say that there is less financial risk (Ibad & Oktaviana, 2024), which is formulated as follows:

Tobin's Q is a Theory that is used to evaluate the company's performance. It is which is a proxy that is used to evaluate operating performance (Ishaq et al., 2021). It is stated that the value of the company is less than the number of assets owned when the value is less than one and that the market value of the company is greater than the number of assets when the value is greater than one (Butt et al., 2023).

Result and Discussion

The data characteristics used in this study can be seen in Table 1, which describes the data characteristics consisting of mean, median, minimum, maximum, standard deviation, kurtosis, and skewness.

	Mean	Median	Observed min	Observed max	Standard Deviation	Excess kurtosis	Skewness
GRI	188,672	58	2	1608	295,363	8,827	2,757
Proportion of Independent Commissioners	0,8	1	0	1	0,4	0,31	-1,518
DER	4,648	5	2	8	1,444	0,058	0,766
Short Term	27,384	18	1	92	24,636	0,048	1,241
Tobin's Q	196,64	125	0	1626	240,075	15,862	3,563

Table 1. Descriptive Analysis
Source: Processed data, 2025

Based on the test results conducted using SMART PLS, the GRI Indicator has a standard deviation value that is greater than the mean value; this states that the data used in this study is abnormal data distribution. In the variable proportion of independent commissioners, DER, Short Term, and Tobin's Q have the smallest standard deviation when compared to the value of the mean, which states that the distribution of the data used in the study has a value that will be normal. Hypothesis testing, which is conducted in research, can determine the extent of the positive effects of this study. The table below illustrates the existence of results that have both significant and insignificant effects.

	Original Sample	T Statistic	P value
Corporate Sustainability > Capital Structure > Firm Performance	-0.140	3.210	0.001
GCG > Capital Structure > Firm Performance	-0.167	3.273	0.001
Capital Structure > Firm Performance	-0.189	2.615	0.009
Corporate Sustainability > Capital Structure	0,338194	5.521	0.000
Corporate Sustainability > Firm Performance	-0.225	1.111	0,185417
GCG > Capital Structure	0,403472	11.362	0.000
GCG > Firm Performance	0,177083	2.180	0.029

Table 2. Hypothesis Test
Source: Processed data, 2025

H1: The Effect Corporate Sustainability on Capital Structure

The analysis of the research conducted showed that the impact of corporate Sustainability on capital structure has a significant positive effect (0.000 <0.05). This indicated that the value of corporate Sustainability is high, and the value of capital structure will increase due to its unidirectional effect. In other words, corporate Sustainability in companies with favorable conditions can mitigate financial risks, thereby reducing the company's debt rasio (Ding et al., 2025; Höck et al., 2020). Additionally, strong corporate Sustainability can optimize company efficiency, which in turn influences financial decision-making (Arshad et al., 2025; Yolanda et al., 2025).

H2: Effect of good corporate governance on capital structure

The results of this study showed that there was a substantial positive impact of good corporate governance on capital structure, with a value of 0.000 <0.05. This indicated that the capital structure is influenced by the effectiveness of the company's implementation of good corporate governance, as it enables the company to make more informed financial decisions by providing data transparency. The results of this study are in line with agency theory, which explains what happens to the relationship between shareholders and the agency (management), which states that with better supervision, the company will make capital structure decisions to minimize risk and maximize company performance (Al-Faryan, 2024). Furthermore, this research is in line with stakeholder theory, which emphasizes the involvement of all stakeholders in the decision-making process for capital structure. This study is in line with the research conducted by (Javaid et al., 2023) and is in line with the research conducted by (Nuraeni et al., 2024).

H3: The Effect Corporate Sustainability on Firm Performance

The results of this study indicated that there was no significant effect of corporate sustainability on firm performance, where good corporate sustainability in a company did not affect firm performance. The results of this study are in line with the study conducted by (Akadiati et al., 2023). The absence of a significant effect was caused by the corporate sustainability variable based on GRI indicators, such as the increased risk faced by the company and the emergence of negatively perceived impressions, thus, the company must reconsider the integration of GRI into its company (Belkhir et al., 2017; Chen et al., 2015).

H4: The effect of Corporate Sustainability on Firm Performance through Capital Structure as a mediating variable

The results of this study (0.001 < 0.05) showed that there was a significant negative effect of corporate sustainability on firm performance through capital structure. The results indicated an inverse effect of corporate sustainability through capital structure on firm performance. Companies need to reconsider the balance between corporate sustainability and capital structure. This finding is not in line with the study conducted by (Hunjra, 2018; Hunjra et al., 2020).

H5: The Effect Good Corporate Governance on Firm Performance

The results of the study indicated that good corporate governance had a significant effect on the performance of a firm, with a significant value of 0.029 <0.05. This research is not in line with signaling theory, which posits that company performance can be improved by reporting signals to external parties about the conditions that occur to reduce the likelihood of ambiguous events. The results of this study are not in line with research conducted by (Ekasari & Noegroho, 2020; Hasanudin et al., 2023). This study is in line with a study conducted by (Ferriswara et al., 2022) who argued that companies with a low percentage of independent commissioners may influence the decision of external investors to invest. In this case, the proportion of independent commissioners can maximize the mechanism that will be used so that it can attract the interest of outside investors.

H6: The effect of Good Corporate Governance on Firm Performance through Capital Structure as a mediating variable

The results of the study on the effect of GCG on firm performance through capital structure showed a significant effect (0.001 < 0.05), indicating that there was a significant negative effect found in this study. The effect of good corporate governance on firm performance and the effect of capital structure on firm performance both showed significant positive results. However, when mediated through capital structure, the effect of good corporate governance on firm performance was a significant negative effect. This indicates that a high capital structure value has an inverse effect on firm performance. This finding is not in line with the studies conducted by (Chabachib et al., 2020; Itan & Chelencia, 2022; Septianto, 2017).

H7: The Effect Capital Structure on Firm Performance

The research indicates that capital structure has a considerable impact on company performance, with a value of (0.009 < 0.05). As a result, the company's amount of debt in the capital structure might have an impact on its performance. The negative original sample results state that when a company has a high proportion of debt, it can affect the company's performance, which in turn affects the company's profit value. This is consistent with the signaling theory, which states that the company will signal to potential investors about firm performance based on the capital structure owned by the company. This study is in line with the findings of (Mayasari & Asyik, 2024; Shah & Khalidi, 2020) but not with those of (Ferriswara et al., 2022; Ibad & Oktaviana, 2024).

Conclusion

Based on the research that has been conducted, the results showed a positive effect of Corporate Sustainability on Capital Structure, Good Corporate Governance on Capital Structure, and Good Corporate Governance on Firm Performance, as well as a significant negative effect in the hypotheses of Corporate Sustainability on Firm Performance through Capital Structure as a mediating variable, Good Corporate Governance on Firm Performance through Capital Structure as a mediating variable, and Capital Structure on Firm Performance. The variable Corporate Sustainability on Firm Performance had no significant effect.

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Author contributions: Credit

KK and II were responsible for the conceptualization and development of the research methodology. MS contributed to data collection along with II and DS. Formal data analysis was conducted by HH and KK. The original draft of the manuscript was prepared by KK, II, and HH, while the review and editing process was carried out by HH and DS. HH also supervised the research project, managed project administration, and acquired funding. All authors have read and approved the final version of the manuscript.

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