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The Influence Of Corporate Governance, Profitability, Leverage , And Technological Innovation Mechanisms On Sustainability Reporting

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ABSTRACT

This study aims to test and analyze the influence of *Corporate Governance,* Profitability, *Leverage,* and Technological Innovation Mechanisms on *Sustainability Reporting* in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This study uses a quantitative approach. The sample of this study is 17 manufacturing companies listed on the Indonesia Stock Exchange for the 2019 – 2023 period. Sample determination using *purposive sampling.* Testing using Eviews media 12. Data collection uses secondary data. The results of the study show that the variables of *the corporate governance* mechanism proxied with CGPI, profitability, and technological innovation have a positive effect on *sustainability reporting.* Meanwhile, *leverage* in this study has a negative effect on *sustainability reporting.*

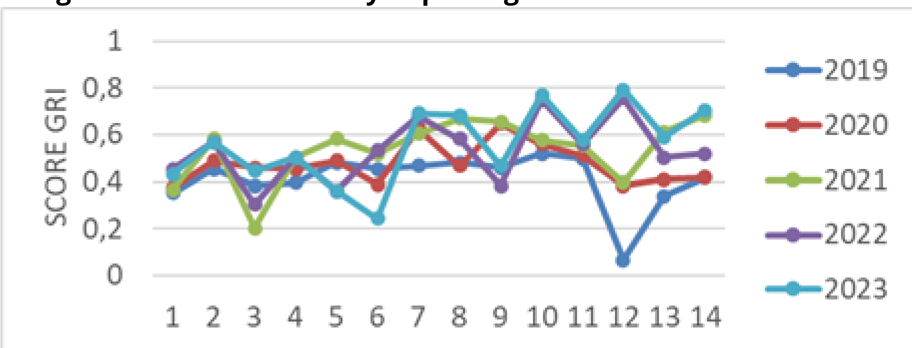
INTRODUCTION

Currently, companies do not focus on making profits alone, but must be responsible for the sustainability of the surrounding environment (planet) and responsible for fulfilling the welfare of the surrounding community (people) (Susanti & Alvita, 2019). Corporate responsibility for the environment and society affects how the public views the company's performance. Society expects companies to play a more role to society rather than just being limited to producing goods and services. The existence of various conflicts between the company and the social environment makes public trust in the company lower so that the public will be more critical and always supervise the company's activities (ANANDA MUHAMAD TRI UTAMA, 2022). Investors today have a concern for social and environmental issues due to their market exposure to companies (Amidjaya & Widagdo, 2020). Therefore, a report is needed that contains information about the company in overcoming the impact and the right strategic actions for the company to take (Fathonah, 2022). This concept will later become a guideline for companies to make a disclosure of responsibility called a sustainability report or *Sustainability Reporting .*

According to GRI (Global Reporting Initiative), Sustainability Reporting is the practice of openly reporting an organization on economic, environmental, and social impacts caused by activities in its production process that contribute to positive or negative impacts on sustainable development goals. Sustainability reporting in Indonesia is regulated in Law No. 40 of 2007 article 74 concerning social and environmental responsibility which requires companies to disclose social responsibility (Afrina et al., 2024).

Quoted from https://www.pwc.com/ , PwC Indonesia held an event themed *"The Future Directions of ESG and Sustainability Reporting in Indonesia"* One of the agendas is to review the report*Sustainability Counts II: State of Sustainability Report in Asia Pacific*. The report was developed by PwC Singapore and *Centre for Governance and Sustainability (CGS) National University of Singapore (NUS)* It analyzes the condition *sustainability report* in Asia Pacific. After analyzing *sustainability report* of the top 50 public companies by market capitalisation in 14 jurisdictions in Asia Pacific, the report further reveals that there are still reporting and disclosure gaps that businesses need to face to demonstrate that they have a viable and robust path to achieve *Net Zero* by 2050 or by the middle of the century and highlights the ever-changing challenges that businesses will face in the future. One of the real examples in Indonesia is gender discrimination and violence experienced by female workers almost in all industrial sectors. This discrimination can be in the form of low wage levels to the absence of allowances and overtime pay for female workers. Not to forget, several industrial sectors have a significant impact and are damaging to the environment. Such as the increase in greenhouse gas emissions or the use of environmentally unfriendly materials such as crackle plastic (Dayan, 2020).

Figure 1 GRI Sustainability Reporting standards Disclosure Chart



Research on factors influencing disclosure *sustainability reporting* has been studied a lot before. The first factor is the Mechanism *Corporate Governance*. In the research conducted (Rahmat, 2022) about Financial Performance, Implementation *Good Corporate Governance* and Ownership Structure to Disclosure *Sustainability Reporting* menyebutkan *Good Corporate Governance* (GCG) as measured by CGPI has a positive but not significant effect on disclosure *sustainability reporting.* Meanwhile, the research conducted by (Ruhiat DKK, 2022) about *stakeholder's pressure, good corporate governance* and capital structure against *sustainability reporting* mentions that *Good Corporate Governance* measured by CGPI has no effect on *sustainability reporting.* This shows that although the practice of *Corporate Governance* relatively high enterprises, but have not been able to drive the increase *sustainability reporting.* (Rahmat, 2022)

The second factor is profitability. (Suharti et al., 2024) The results of his research show that the profitability of the proxy uses *Return On Assets* (ROA) has a positive effect on disclosure *sustainability reporting,* Because this is because the higher the company's profitability level, the better the company's performance and financial resources will also increase so that the disclosure *sustainability reporting* also more because the company wants to convey to the *stakeholder* that its performance is better than other companies. Results (Hermawan & Sutarti, 2021), profitability that is proxied with *Return On Assets* (ROA) negatively affects disclosure *sustainability reporting.* This shows that companies with high profits are less likely to report *sustainability reporting.* Companies with high levels of profitability do not necessarily always report disclosure activities from social, environmental, and economic aspects because making sustainability requires a lot of money so that the costs incurred to make this sustainability report can reduce the profit that should be large if not making disclosure *sustainability reporting* companies to better convince investors and creditors of the company's profitability, including in the preparation of sustainability reports (*sustainability reporting*) which is presented separately from the annual report.

The third factor is *Leverage.* Based on research conducted by (Putri & Surifah, 2023) about Influence *Leverage* and *Good Corporate Governance* against Disclosure *Sustainability Report* mentions that *leverage* negatively affect disclosure *sustainability reporting.* Meanwhile, the research conducted by (Hermawan & Sutarti, 2021) about the Influence of Liquidity, Leverage, and Profitability on the Disclosure of the Sustainability Report states that *Leverage* does not have a significant effect on sustainability disclosure. Because of the level *leverage* The high in the company also increases the company's tendency to violate credit agreements so that the company will report higher profits now. (Anisa Anisa et al., 2023)

The fourth factor is technological innovation. In research (Prastyawan & Astuti, 2023) Technological Innovation has a positive effect on Disclosure *Sustainability Reporting* or Sustainability Report. The influence of technological innovation contributes positively to the disclosure of sustainability reports. Research shows that companies that adopt innovative technologies tend to have more comprehensive and transparent sustainability reports. The formation of innovation is a complex process, utilizing the results of technological activities. So that technological innovation takes the form of something new, or is an important improvement (Prastyawan & Astuti, 2023).

LITERATURE REVIEW

Teori Stakeholders

Theory *stakeholder* Assume *stakeholder* have the same right to obtain information about the business activities of the entity. This theory considers the position of the report users who are considered to be in power. When the company does not consider *stakeholder* includes creditors and investors only, but all parties related to the company's activities follow changes in the company's business environment (Nuraeni & Darsono, 2020). SRI researchers then classify the parties included in the *stakeholder*. These parties are shareholders, employees, customers, suppliers, lenders, and the public. At first only shareholders were seen as the only *stakeholder* company (Rosmayanti, 2018). Companies cannot separate themselves from the social environment, the *stakeholder* requires information issued by the company related to the company's activities, one of which is the disclosure of *sustainability report ,* to make a decision. Information with integrity is needed, the goal is to *stakeholder* Putting Trust in the Company (Liana, 2019). The size of a company can be determined in various ways, one of which is the attention given by the public. The larger a company, the larger and more diverse stakeholders will be so that large companies are more vulnerable to negative problems given by the public (Arrokhman & Siswanto, 2021).

Legitimation Theory

This theory was first introduced by Dowling and Pfeffer (1975). Legitimacy is defined as an important thing for a company to maintain the boundaries set in the social norms and values that prevail in society. The response to these limitations must be considered by the organization related to its environment. This statement is supported by the results of O'Donovan (2002) research which states that the theory of legitimacy is a factor that encourages environmental disclosure carried out by an organization (Hayati Harahap & Nahwa Zainab Marpaung, 2023). The theory of legitimacy that states that the corporate social responsibility report will encourage the company to ensure that the company's activities and performance are acceptable to the public to prove that the company has carried out its social responsibility in order to realize the principle of responsibility (Liani et al., 2024).

Corporate Governance Mechanism

Corporate governance It is a system to control and regulate the company which can be seen from the mechanism of the relationship between the various parties who manage the company. Inside *corporate governance* There is a relationship between the external and internal of the company which has a relationship between obligations and rights to increase the success of the business and the accountability of the company to realize a good judgment from investors in the long term (Rosalita, 2021). According to (Lukviarma, 2016) *Corporate Governance* It is an open system based on the functionalist paradigm, emphasizing the need to maintain balance and stability in social life. It places emphasis on the functions of each individual or group of interests in accordance with the structure regulated by law. In this study, we will explain the relationship *sustainability reporting* with proportions *Corporate Governance Perception Index* (CGPI) (Aliniar Dwita, 2017).

Index *Corporate Governance Perception Index* (CGPI) is a tool used to measure and assess corporate governance practices. *Good corporate governance quality* It is the quality or level of good or bad of a company in implementing the principles of good corporate governance, which can be measured using an index, namely *Corporate Governance Perception Index* (CGPI) generated from a survey that has been conducted by *The Indonesian Institute of Corporate Governance* (IICG) (Kepakisan & Budiasih, 2022). Since 2001 IICG has conducted a ranking program known as *Corporate Governance Perception Index* (CGPI) which is a research and ranking program on the implementation of *good corporate governance* to find out the extent to which companies in Indonesia have implemented good corporate governance, where the participation of companies in this program is voluntary.

Profitability

Profitability is a ratio used to assess a company's ability to seek profits in a certain period, both from sales and investment income (Effendi et al, 2023). Profitability reflects not only the profits generated but also the efficiency of management in using resources to achieve the company's goals (Sudjiman & Sudjiman, 2022). Therefore, in (Kasmir, 2017) the profitability ratio in a company will always receive special attention, because through profitability it can be seen the company's ability to make a profit. Many investors will look at this ratio, before they make their investment decision because if the company is not able to make maximum profits, then investors will also be reluctant to invest their capital in a company (Afrina et al., 2024).

Leverage

Leverage is the level of the company's debt. The higher the ratio *leverage* the lower the company's ability to carry out its obligations to creditors. Obligations to creditors are difficult to fulfill, this can interfere with the fulfillment of other obligations, such as disclosure obligations *sustainability reporting* (SR) (Hutagalung et al., 2024). Therefore, it is suspected that the higher the *leverage*, the less financial allocation for corporate social responsibility, the lower the disclosure *sustainability reporting* (Putri & Surifah, 2023). According to (Retnoningsih et al., 2024) *leverage* is a ratio that shows the company's ability to meet long-term obligations. Companies with *leverage* High has a greater cost of debt and will probably reveal more information to maintain stakeholder trust. Measurement *leverage* is by using the percentage of the total debt to the company's equity in a period also called *Debt to Equity Ratio* (DER) (Wahyuni, 2019).

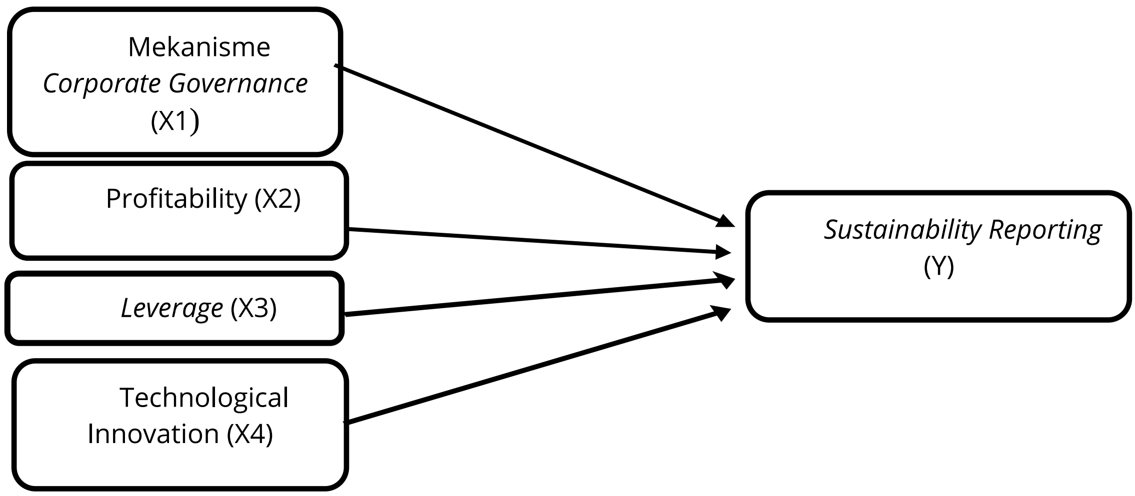
Technological Innovation

According to (Prastyawan & Astuti, 2023) Innovation has an influence on the disclosure of sustainability reports on companies. In today's uncertain environment, companies need to respond to the environment effectively and efficiently. On the basis of stakeholder theory, technological innovation not only helps the business industry to increase the company's profitability but also encourages the company to facilitate and increase economic growth, contribute to the environment and jobs, besides that with technological innovation makes the work process more efficient so that the company's profits will be maximized (Prastyawan & Astuti, 2023).

Sustainability Reporting

The progress and development of the industry that is increasing today has a positive impact on the economic condition of the community in general. However, these developments also have a negative impact on living things and the environment. The environment and activities of residents around the industry are also disrupted. This condition should make companies aware that it is time for them to have an obligation to protect and maintain the earth and its contents and not only focus on profits (Novi Susilowati & Andi Kartika, 2023). In research (Retnoningsih et al., 2024) explain *sustainability report* is a report published by an entity to plan, communicate and disclose information related to commitment, implementation, measurement, disclosure and accountability of the company's performance related to environmental, social and economic aspects.

Figure 2. Conceptual Framework



1. CGPI's *Corporate Governance* Mechanism has a positive effect on *Sustainability Reporting*
2. Profitability has a positive effect on *Sustainability Reporting*
3. *Leverage* has a positive effect on *Sustainability Reporting*
4. Technological Innovation has an effect on *Sustainability Reporting*

METHODS

This study uses descriptive methods and quantitative approaches. According to (Prof. Dr. Sugiyono, 2013) This method is called the quantitative method because the research data is in the form of numbers and analysis using statistics. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2019 – 2023. In this study, using *purposive sampling* As a sampling technique, namely through research techniques with certain considerations with the aim that the data obtained can later be more representative (representative). The data used in this study are annual financial statements and reports *sustainability reporting* in manufacturing companies for the 2019-2023 period. The data used is sourced from information obtained from the Indonesia Stock Exchange (IDX), namely www.idx.co.id , the official websites of manufacturing companies and also other relevant sources. The data analysis used includes descriptive statistical analysis, panel data regression estimation, classical assumption test, t-test, and F test. Data will be processed using the application *Eviews* 12.

Variable Measurement

Table 1 : Definition, Variable Measurement, Scale

Variable	Description	Measurement	Scale
Sustainability Reporting	It is a reporting framework designed to assist organizations in determining their desires.	ΣXY = ΣXYi/ni Ket = ΣXYi: Number of assessments on all of these items: Number of items on the GRI Standards	Ratio
Mekanisme *Corporate Governance* (*Corporate Governance Perception Index (CGPI)*	Ranking programs for companies that apply GCG well	Scores given to companies participating in the CGPI program	Score
Profitability (*Return On Asset*)	It is a tool to measure *the financial* performance of a company that is useful for determining The size or size of the provit obtained by a company.	ROA = Net profit after tax / Total Assets	Ratio
Leverage (DER/ Debt to Equity Ratio)	It is a ratio used to measure the extent to which a company's assets are financed by debt.	DER = Total Debt / Total Equity	Ratio
Technological Innovation	Technological Innovation refers to companies that have no expenditure on R&D and companies that have no expenditure on R&D	IT = R&D Expenses / Revenue or Sales	Ratio

RESULTS

Table 2. Results of Descriptive Statistical Analysis

Date: 01/31/25 Time: 20:37
Sample: 2019 2023

	SR	CGPI	ROA	DER	IT
Mean	0.509353	0.640354	0.087318	1.025083	0.055656
Median	0.489210	0.655910	0.060890	0.775880	0.001270
Maximum	0.769780	0.763440	0.416210	4.935010	1.621580
Minimum	0.330940	0.462370	0.000990	0.102820	0.000110
Std. Dev.	0.115449	0.074023	0.088182	0.909004	0.232758
Skewness	0.563528	-0.650574	1.996125	1.973002	5.897734
Kurtosis	2.394438	2.510984	6.414193	7.542991	37.37895
Jarque-Bera	5.797571	6.842937	97.73148	128.2427	4678.703
Probability	0.055090	0.032664	0.000000	0.000000	0.000000
Sum	43.29500	54.43005	7.422040	87.13205	4.730780
Sum Sq. Dev.	1.119594	0.460274	0.653197	69.40820	4.550820
Observations	85	85	85	85	85

Source: Data Processed by Eviews 12, 2025

The next stage of data testing is the selection of the best analysis model so that the selected model can proceed to the analysis stage.

Table 3. Model Estimation Test Results

Effect Test	Prob > F	Determining Test	Best Model (Prob>F) / (Prob>Chibar2) / (Prob>Chi2)	Description
HUNDRED	0,006967	Chow test (CE vs FE)	0,4213	HUNDRED
FIVE	0,007852	Hausman Test (FE vs RE)	0,1799	REM
REM	0,006967	LM test (CE vs RE)	0,3484	HUNDRED

Source : Data Processed by Eviews 12

The Common Effect Model (CEM) is a Data Panel Regression model that will be used to determine the impact of CGPI's corporate governance mechanisms, profitability, leverage, and technological innovations on sustainability reporting, based on the findings of the third test conducted. The Common Effect Model (CEM) should be examined for its assumptions in this study.

Classical Assumption Test

Table 4 Multicollinearity Test Results

	CGPI	ROA	DER	IT
CGPI	1.000000	-0.342780	-0.209734	-0.114096
ROA	-0.342780	1.000000	0.440561	0.143450
DER	-0.209734	0.440561	1.000000	-0.098901
IT	-0.114096	0.143450	-0.098901	1.000000

Source: Data processed by Eviews 12

From the above findings, it is clear that the regression model does not show multicollinearity because there is no single independent variable whose value is greater than 0.8.

Table 5 Heteroscedasticity Test Results

Dependent Variable: RESAB
Method: Panel Least Squares
Date: 01/31/25 Time: 20:50
Sample: 2019 2023
Periods included: 5
Cross-sections included: 17
Total panel (balanced) observations: 85

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	0.519467	12.31614	0.042178	0.9665
CGPI	8.049158	18.11471	0.444344	0.6580
ROA	-40.63590	16.77366	-1.422601	0.1767
DER	4.112700	1.566173	1.625955	0.1035
IT	-0.387890	5.548351	-0.069911	0.9444

Source: Data processed by Eviews 12

Table 5 shows the value of the > α Breusch-Pagan Cross-section LM (0.05), so it can be concluded that the panel data regression model does not have heteroscedasticity.

Uji Hipotesis
Table 6 Test F

R-squared	0.759856	Mean dependent var	8.015468
Adjusted R-squared	0.117849	S.D. dependent var	14.71529
S.E. of regression	13.82103	Akaike info criterion	8.147282
Sum squared resid	15281.66	Schwarz criterion	8.290967
Log likelihood	34.25947	Hannan-Quinn criter.	8.205076
F-statistic	3.805440	Durbin-Watson stat	1.386308
Prob(F-statistic)	0.006967		

Source: Data processed by Eviews 12

Table 6 shows the value of F-statistic (3.805440) > Table F (2.328721) and the prob value (F-statistic) of 0.006967 < 0.05, so it can be concluded that the hypothesis is accepted. The variables of corporate governance mechanisms, profitability, leverage and technological innovation simultaneously (together) affect sustainability reporting.

Tabel 7 Uji Adjusted R-Squared

R-squared	0.759856
Adjusted R-squared	0.117849

Source: Data processed by Eviews 12

Table 7 shows the Adjusted R-Square value of 0.117. This means that 11.7% of the value of sustainability reporting is influenced by four independent variables, namely corporate governance mechanisms, profitability, leverage, and technological innovation. Meanwhile, 88.3% was influenced by other variables that were not studied.

Table 8 Test t

Dependent Variable: SR
Method: Panel Least Squares
Date: 01/31/25 Time: 20:39
Sample: 2019 2023
Periods included: 5
Cross-sections included: 17
Total panel (balanced) observations: 85

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	1.235702	14.83256	2.226328	0.0215
CGPI	1.880298	21.81588	2.480752	0.0320
ROA	4.115601	20.20084	3.520428	0.0007
DER	-3.994337	1.886172	-2.117695	0.0373
IT	1.340210	6.681984	2.154748	0.0410

Source: Data processed by Eviews 12

Table 8 shows that the results of the partial t test of the CGPI variable have a t-statistic value of 2,480 with a Prob value. At 0.032 (<0.05), the CGPI variable has a positive effect on sustainability reporting. The profitability variable measured by Return On Assets (ROA) has a t-statistic value of 3,520 with a Prob value. At 0.0007 (<0.05), the profitability variable has a positive effect on sustainability reporting. The leverage variable measured by the Debt to Equity Ratio (DER) has a t-statistic value of -2,117 with a Prob niai. 0.037 (<0.05), the leverage variable has a negative effect on sustainability reporting. The technological innovation variable has a t-statistic value of 2,154 with a Prob value. 0.041 (<0.05), the variable of technological innovation has a positive effect on sustainability reporting.

DISCUSSION

The Influence of Corporate Governance Mechanisms on Sustainability Reporting

Based on the results of hypothesis testing or in table 8, the variables of the corporate governance mechanism proxied with CGPI (Corporate Governance Perception Index) have a t-statistic value of 2,480 with a Prob value. As much as 0.032 (<0.05), the CGPI variable has a positive effect on sustainability reporting, which means that there is good control over the company, including the company's control over management behavior, so that management will further minimize profit management actions in the preparation of financial statements.

This is in accordance with the stakeholder theory, which emphasizes the importance of considering the interests of all parties involved in the company, including employees, customers and the community. The CGPI assessment reflects how companies meet the expectations of various stakeholders in their corporate governance practices.

The results of this study are in line with the research conducted by (Rahmat, 2022) with the results showing Good Corporate Governance as measured by CGPI has a positive effect on disclosure sustainability reporting. However, it is different from the results of research conducted by (Ruhiyat et al., 2022) which states that Good Corporate Governance as measured by CGPI has no effect on disclosure sustainability reporting.

The Effect of Profitability on Sustainability Reporting

Based on the results of hypothesis testing or in table 8 profitability variables measured by Return On Assets (ROA) has a value t-statistic 3,520 with a value of Prob. As much as 0.0007 (<0.05), the profitability variable has a positive effect on sustainability reporting which means that the higher the profitability, the better the performance of a company (Suharti et al., 2024).

This is in accordance with the theory stakeholders, Where companies that have large profits want to have a good image in front of potential investors and have a sustainable existence in the future to reveal sustainability reporting (Christian & Dyah Ayu, 2023).

The results of this study are in line with the research conducted by (Suharti et al., 2024) which states that profitability has a positive effect on disclosure sustainability reporting. However, it is different from the research conducted by (Hermawan & Sutarti, 2021) which states that profitability has a negative effect on disclosure sustainability reporting, Because companies with high levels of profitability do not necessarily report social, environmental, and economic responsibility disclosure activities to better convince investors and creditors of the company's profitability, including in the preparation of the Sustainability Report which is presented separately from the annual report.

Effect of Leverage on Sustainability Reporting

Based on the results of hypothesis testing or in table 8, the leverage variable measured by the Debt to Equity Ratio (DER) has a t-statistic value of -2,117 with a Prob niai. 0.037 (<0.05), the leverage variable has a negative effect on sustainability reporting, which means that when the company has large liabilities compared to the assets owned by the company, it can affect the company in disclosing sustainability reporting.

This is in accordance with the theory of stakeholders, companies with a high level of leverage have a dependence on debt. In this situation, creditors as the main stakeholders will pay more attention to the company's performance and social responsibility.

The results of this study are in line with the research conducted by (Putri & Surifah, 2023) which states that leverage negatively affect disclosure sustainability reporting. However, it is different from the results of research conducted by (Suharti et al., 2024) which states that leverage has no effect on disclosure sustainbaility reporting.

The Influence of Technological Innovation on Sustainability Reporting

Based on the results of hypothesis testing or in table 8, the variables of technological innovation have a t-statistic value of 2,154 with a Prob value. 0.041 (<0.05), the variable of technological innovation has a positive effect on sustainability reporting, which means that technological innovation not only helps the business industry to increase the company's profitability but also encourages the company to facilitate and increase economic growth, contribute to the environment and jobs, in addition to that technological innovation makes the work process more efficient so that the company's profits will be maximum. This is in accordance with the theory of stakeholders.

The results of this study are in line with the research conducted by (Prastyawan & Astuti, 2023) which states that technological innovation has a positive impact on the disclosure of sustainability reporting which means that the higher the value of Technological Innovation, the more it will increase the Disclosure of Sustainability Reports. The results of this study are also in line with the results of research conducted by (Choi & Yoo, 2022) which states that technological innovation has a positive effect on the disclosure of sustainability reporting This finding shows that technological innovation activities are recognized by stakeholders, including investors, as an important strategy to improve company performance.

CONCLUSION

This study was conducted to test and analyze the Influence of *Corporate Governance,* Profitability, *Leverage,* and Technological Innovation Mechanisms on *Sustainability Reporting* in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019 – 2023 period. Several things can be concluded, including:

1. The *Corporate Governance* Mechanism proxied by the *Corporate Governance Perception Index* (CGPI) has a positive effect on *sustainability reporting*
2. Profitability has a positive effect on *sustainability reporting*
3. *Leverage* negatively affects *sustainability reporting*
4. Technological innovation has a positive effect on *sustainability reporting*

LIMITATION

1. This study uses four independent variables to test *sustainability reporting,* it is suggested that the next study consider expanding the scope by including additional financial ratios as an independent variable.
2. The sample used in this study is only manufacturing companies, so for the next research it is expected that it is necessary to include all companies listed on the Indonesia Stock Exchange or change sectors that can represent all types of companies.
3. Further research is expected to add a longer research period.

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