“The influence of governance, sustainability performance, and innovation on the performance of Indonesian manufacturing listed companies”

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THE INFLUENCE OF GOVERNANCE, SUSTAINABILITY PERFORMANCE, AND INNOVATION ON THE PERFORMANCE OF INDONESIAN MANUFACTURING LISTED COMPANIES

Abstract

This study examines the influence of governance, sustainability performance, and innovation on firm performance. The study employs a quantitative approach, utilizing panel data regression analysis, on manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2023. The data collection yielded 782 unbalanced panel datasets as the basis for the analysis. Data were collected through documentation in the form of financial and annual reports during the observation period. The results indicate that sustainability performance has a significant impact on the return on assets. The coefficient is 0.10105182 and is statistically significant at the 5% level. Innovation also affects the return on assets and gross profit margins. The coefficient is 0.02189183 and is statistically significant at the 1% level. The percentage of independent commissioners affects the gross profit margin. The coefficient is –0.01407224 and is statistically significant at the 1% level. No evidence suggests that governance, sustainability performance, or innovation affects return on equity. In general, sustainability performance and innovation are key predictors of a firm's overall performance.

Keywords profitability, sustainability, board, commissioner, innovation

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INTRODUCTION

Currently, global awareness of environmental sustainability is increasing, accompanied by legal and moral obligations and pressure on companies to operate environmentally friendly businesses and respond to environmental issues (Ali et al., 2024). The decline in environmental, social, and economic quality in several countries has become a concern for the international community, including the United Nations (UN) (Pratama & Hermawan, 2023). The adoption of the Sustainable Development Goals (SDGs) by all UN member states in 2015, along with multilateral initiatives such as the Paris Agreement, aims to address the threat of climate change (Razak et al., 2023). In the past decade, organizations have increasingly emphasized the importance of environmental, social, and governance (ESG) dimensions in their operations. Given that climate change is the most pressing issue in society, businesses and investors are trying to understand the impact and potential risks of ESG issues on their business models (Das, 2024).

In the field of accounting and finance, sustainability reporting has gained increasing attention and become an essential component of corporate reporting in both developed and developing countries

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(Kheireddine et al., 2023). Through sustainability reporting, companies can evaluate and communicate their sustainability performance (Rusu et al., 2024). Sustainability significantly affects a company's overall performance, as effective management of environmental, social, and governance aspects can enhance both financial and operational outcomes. Moreover, sustainability reporting plays a crucial role in creating value for stakeholders and supporting the company's long-term success (Shah et al., 2024), while also enhancing firm value through cost efficiency and mitigating undiversified risks (Tahmid et al., 2022).

A compelling issue lies in the uncertainty regarding the extent to which sustainability reporting truly reflects a company's sustainability practices. Furthermore, the relationship between sustainability reporting and corporate financial performance remains mixed and empirically inconsistent. Governance and innovation are also important phenomena that can be linked to corporate performance. Innovation in the latest technology should have a significant impact on performance. However, empirical evidence remains scarce.

1. LITERATURE REVIEW AND HYPOTHESES

This study is grounded in stakeholder, agency, upper echelons, and sustainability theories. The research specifically targets manufacturing companies listed in Indonesia. The upper echelons and sustainability theories explain the relationship between governance, sustainability, and firm performance (Tjajadi et al., 2025). Signaling and agency theories offer a robust theoretical foundation for understanding the intricate relationship between sustainability and corporate financial performance (Bao et al., 2024). Stakeholders and agency theories are commonly used (Li et al., 2024). The stakeholder theory has been used to explain the relationship between sustainability and corporate performance (Handoyo & Anas, 2024). Legitimacy and stakeholder theories have been proposed to understand the influence of corporate sustainability reporting on company performance (Shah et al., 2024). Additionally, resource dependence theory explains the relationship between governance and financial performance (Assenga & Hussainey, 2018).

Sustainability reporting is increasingly vital in accounting and finance, forming a key part of corporate disclosures globally. The development of sustainability reporting and accounting presents several concepts and practices, such as corporate sustainability reporting (Shah et al., 2024), corporate sustainability performance (CSP) (Rashid & Kabir, 2024), corporate environmental sustainability performance (Kheireddine et al., 2023), ESG performance (Sancha et al., 2022), and social sustainability performance (Tjahjadi et al., 2024). The measurement of sustainability performance also varies. Several CSP measurements are eclectic and do not guide contextual applications (Damtoft et al., 2025).

Numerous factors can significantly affect sustainability and firm performance. This study examines the impact of governance, sustainability performance, and innovation on the performance of Indonesian manufacturing companies. The implementation of good corporate governance (GCG) significantly impacts the financial performance of manufacturing companies (Satria et al., 2023). Other studies have found that implementing good corporate governance leads to improved corporate financial performance (Affes & Jarboui, 2023). GCG encompasses principles such as accountability, transparency, and effective supervision, all of which contribute to enhancing a company's financial performance. The accountability of the board of commissioners, including the responsibility for supervising and providing directions to the board of directors, positively influences the company's financial performance (Hermuningsih et al., 2020). With effective supervision, the company's risks can be minimized, and shareholder trust can be enhanced, ultimately leading to improved financial performance. Earlier research has contributed to the theoretical framework by highlighting how managerial behavior influences the connection between corporate governance practices and firm performance in the context of emerging market economies (Guluma, 2021). Research on the im-

pact of board size on firm performance has yielded varied findings. While some studies argue that larger boards can hinder performance because of coordination difficulties, others highlight that a well-organized board can improve oversight and strengthen strategic decision-making (Miao et al., 2023). Independent directors exert a non-linear influence on firm performance, whereas smaller board sizes positively impact performance, diminishing the effect as board size increases (Merendino & Melville, 2019).

Sustainability performance encourages companies to achieve better performance. Companies with strong sustainability practices can increase profitability and corporate value by reducing operating costs, increasing efficiency, and attracting more sustainability-conscious investors and customers. Moreover, companies that implement sustainability strategies can gain a competitive advantage by building a better reputation and increasing customer loyalty, leading to increased company performance. Sustainability performance can increase a company's value and performance by reducing costs and unsystematic risks, whereas others perceive it as an inefficient use of resources (Tahmid et al., 2022). Previous studies have shown that sustainability performance is strongly correlated with company performance (Maldonado-Guzmán et al., 2023). Sustainability reporting has a significant impact on return on assets (Sumaryati & Rohman, 2019). Corporate environmental sustainability performance has a significant influence on firm value (Kheireddine et al., 2023). Corporate social responsibility disclosure has a significant impact on the firm's performance (Pasko et al., 2022). Digital information-integrated reporting has a significant impact on firm valuation (Machmuddah et al., 2022). Integrated reporting disclosure can increase a company's value (Machmuddah et al., 2023). In India, sustainability disclosures have a positive relationship with company value (Tobin's Q) and market performance (stock price returns) (Oware & Worae, 2023). Another study reveals a significant positive relationship between community and environmental factors and return on assets (ROA) and return on equity (ROE) in Jordan (Alghizzawi et al., 2022). Studies in Vietnam have shown that environmental and social disclosures have a direct impact on company performance (Nguyen & Nguyen, 2023). Empirical evidence shows that companies in Jordan should focus on improving their CSP activities to improve their financial performance (Taha et al., 2023).

In general, research findings suggest that sustainability disclosure and performance are not always aligned, and the quality of sustainability reporting can sometimes have a negative impact on a company's market value. While sustainability reporting can improve market valuations, its impact on accounting performance and certain financial indicators, such as Tobin's Q, tends to be insignificant. Nonetheless, empirical studies have shown that the extent of sustainability disclosures does not necessarily align with actual sustainability performance indicators (Gnanaweera & Kunori, 2018). The quality of sustainability reporting has been found to negatively affect market value (Nwaigwe et al., 2022). While some research indicates a positive link between corporate sustainability and financial performance, this relationship does not extend to Tobin's Q (Pham et al., 2021). Social and governance disclosures appear to have a positive influence on economic outcomes, whereas environmental disclosures show no such effect (Azzam et al., 2020). Other studies have identified a negative relationship between corporate sustainability performance and earnings management, particularly in terms of real activity manipulation and discretionary accruals (Nguyen, 2024). Although sustainability reporting may enhance a company's stock market valuation, it does not necessarily improve its accounting performance (Liou et al., 2023).

Innovation and technology have a profound impact on a company's performance. The innovation and technology a company can apply will encourage it to achieve efficiency and, ultimately, better performance. Innovation and technology enable companies to automate business processes, minimize waste, and enhance productivity. Thus, companies can create products and services that are more competitive for consumers. Long-term investment in innovation and technology creates sustainability in a company's business. The comprehensive adoption of environmentally friendly technology significantly enhances sustainability performance, encompassing economic, environmental, and social aspects (Mukhtar et al., 2024).

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Digital traceability has a significant impact on the three sustainability pillars of food companies (Zhou et al., 2024). Green innovation strongly correlates with sustainability performance (economic, social, and environmental) (Maldonado-Guzmán et al., 2023). Green human resource management practices also significantly affect CSP by creating green employee behavior and organizational culture (Ali et al., 2024). Sustainable HRM significantly impacts CSP (Nakra & Kashyap, 2024). Environmentally friendly innovation can enhance sustainability performance (Ullah et al., 2024).

Previous findings generally indicate that innovation has a positive impact on company performance, including financial, social, and environmental aspects. However, the strength of this influence depends on the industry context and the company's ability to effectively utilize innovation. A meta-analysis of 62 studies indicates a positive association between innovation and firm performance. However, the strength of this relationship varies based on factors like the industry environment and the company's ability to effectively leverage the benefits of innovation (Rousseau et al., 2016). Implementing innovation, particularly green innovation, can have a significant impact on a company's environmental, social, and economic aspects. Innovation significantly influences the financial performance of micro, small, and medium enterprises (MSMEs) in Mexico (Valdez-Juárez et al., 2024). The impact of innovation on performance is apparent in micro and small manufacturing firms. A study conducted in selected towns in the Awi Zone of Amhara, Ethiopia, found that an innovation-driven approach positively affects firm performance, emphasizing the importance of innovation even for smaller businesses (Ayinaddis, 2023).

Prior research has produced inconsistent findings, and the role of innovation in the context of firm performance remains underexplored. The novelty of this study lies in its comprehensive approach to examining the interconnectedness of governance, sustainability performance, innovation, and company performance. The decision to focus on manufacturing companies is based on the understanding that this sector plays a crucial role in both national and global economies. However, it is also known for its adverse effects on environmental and social systems (Mukhtar et al., 2024). The manufacturing industry represents a paradox, driving both advancement and deterioration. Its growth is often seen as a key indicator of economic development in emerging nations. In Indonesia, the manufacturing sector contributed 13.53% to economic growth in 2015, with projections suggesting an increase to 20% by 2023 (Muryani & Chiputyani, 2019).

This research aims to investigate the impact of governance, sustainability performance, and innovation on the performance of manufacturing companies listed on the Indonesia Stock Exchange. Firm size and equity were used as control variables. In this context, the following hypotheses are formulated:

H1a *Board members have a significant impact on a firm's performance.*

H1b *Board meetings have a significant impact on a firm's performance.*

H1c *Commissioners members have a significant impact on a firm's performance.*

H1d *Commissioners' meetings have a significant impact on a firm's performance.*

H1e *Independent commissioners' proportion has a significant impact on a firm's performance.*

H2 *Sustainability performance has a significant impact on a firm's performance.*

H3 *Innovation has a significant impact on a firm's performance.*

2. METHODOLOGY

This type of research uses quantitative methods with a causality test design. This study examines the impact of governance, sustainability, and innovation on the performance of manufacturing companies listed on the Indonesia Stock Exchange. The research variables include firm performance, governance, sustainability performance, and innovation. Firm performance is the dependent variable, and the governance, sustainability per-

formance, and innovation are the independent variables. Firm performance is measured by ROA, ROE, and GPM. Governance is measured by the board and commissioners' mechanisms (number of members and meetings). Sustainability performance is measured by the score obtained on the ESG using the Global Reporting Initiative (GRI) index. Innovation is measured by the technological innovation costs incurred by the company during the current period. The explanation of the research variables is shown in Table 1.

The research population comprises manufacturing companies listed on the Indonesian Stock Exchange (IDX) as of December 31, 2023. The observation period was five years (2019–2023). The sampling method was purposive, using criteria based on manufacturing companies that published financial and annual reports during the observation period and had the complete data required for the research. Between 2019 and 2023, 165 manufacturing companies were listed on the IDX. However, not all companies were able to obtain data during the observation period. Thus, the data were obtained from 782 unbalanced panel data points.

The data collected are secondary, obtained from various sources, including the IDX website, company websites, and other relevant sources. The data collection method used is documentation in the form of financial and annual reports from each company. Descriptive and panel data regression analyses were used. Descriptive statistics (means, medians, and standard deviations) were used to analyze the research variables. A panel data regression analysis was conducted to examine the impact of governance, sustainability performance, and innovation on the performance of manufacturing companies in Indonesia. Model fit analysis was conducted first to determine the best model (fixed effects model, random effects model, or ordinary least squares) by carrying out the Hausman, Chow, and Lagrange multiplier tests. The classical assumption test was conducted later, ending with the research hypothesis test. STATA version 17 was used to process data.

Table 1. Research variables (definition, measurements, and their references)

Variables	Variables definition and measurement	References
Dependent Variables		
Firm performance	ROA (return on assets) is the profit ratio before tax to total assets.	Miao et al. (2023), Merendino & Melville (2019), Liou et al. (2023)
	ROE (return on equity) is calculated from the profit ratio before tax to capital.	Alghizzawi et al. (2022), Liou et al. (2023), Shah et al. (2024)
	GPM (gross profit margin) is calculated by subtracting direct expenses or cost of goods sold (COGS) from net sales (gross revenues minus returns, allowances, and discounts).	Rohman et al., 2022
Independent Variables		
Governance	Board members refer to the number of directors.	Miao et al. (2023), Merendino & Melville (2019), Rashid & Kabir (2024)
	Board meetings refer to the number of meetings held annually.	Miao et al. (2023), Merendino & Melville (2019)
	Commissioners Members is the number of commissioners' members.	Merendino & Melville (2019), Li et al. (2023)
	The Commissioner's Meeting is the number of meetings for the year.	Merendino & Melville (2019), Li et al. (2023)
	The percentage of independent commissioners is the proportion of independent commissioners.	Merendino & Melville (2019), Rashid & Kabir (2024)
Sustainability performance	GRI score from the Global Reporting Initiative	Sumaryati & Rohman (2019)
Innovation	Log natural of innovation and technology expenditures (Ln_Innovation)	Ayinaddis (2023), Mukhtar et al. (2024), with the authors' development
Control variables		
Firm Size	Log natural of total assets of the firm (Ln_Size)	Merendino & Melville (2019), Almaqtari et al. (2024)
Firm Equity	Log natural of firm equity (Ln_Equity)	Rohman et al., 2022

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The regression equation developed in this study is as follows:

$$FP = \beta_0 + \beta_1 Gov + \beta_2 SP + \beta_3 Innovation + \varepsilon, \quad (1)$$

where *FP* = firm performance; *SP* = sustainability performance; *Gov* = governance; innovation indicates innovation and technology. β is defined as a set of parameters to be estimated, and ε is used to accommodate the term error.

3. RESULTS

Table 2 presents descriptive statistics. The average ROA value is 3.32%, and the ROE is 1.73%, indicating that manufacturing companies in Indonesia experienced a relatively strong profitability performance from 2019 to 2023. The mean GPM is 27.54%, indicating good performance. Governance is measured in five dimensions, namely board members, board meetings, commissioners, commissioners' meetings, and the percentage of independent commissioners. The average number of board members is eight, with a minimum of five directors and a maximum of 17. Indonesian manufacturing companies have diverse directors. On average, the number of board meetings is 44 times a year, a substantial number that indicates the board of directors frequently holds meetings to formulate strategic policies.

The average number of board commissioners is seven, with a minimum of three and a maximum of 14. This implies that Indonesian manufacturing companies have sufficient boards of commissioners to supervise company activities. The number of board meetings is also relatively high, averaging 16 meetings annually. The proportion of independent commissioners is also high, averaging 43%. The innovation variable is measured as the costs incurred by the company for innovation and technology. The GRI Index measures sustainability performance. The average GRI value is 0.633, indicating a high level of disclosure by manufacturing companies in Indonesia.

The model test results on panel data regression are presented in Tables 3, 4, and 5. Hausman and Chow tests were conducted to determine the best model from the ordinary least squares (OLS), fixed effects (FE), and random effects (RE) models. For the ROA indicator, the best model is the fixed effects. However, the ROE indicator has no best model. No independent variables have been proven to significantly affect ROE. RE is the best model for the GPM indicator of firm performance. Table 3 shows that the p-values for the GRI, size, and equity variables are less than 0.05, indicating a significant impact on ROA. GRI and equity have positive coefficients, whereas size has a negative coefficient. Thus, sustainability performance has a positive and significant effect on the performance of manufacturing companies listed on the IDX. While company size has an adverse impact, equity has a positive effect. No governance mechanism indicator has a significant impact on ROA. Moreover, innovation has not been proven to have a significant impact on ROA.

Table 4 shows that the independent variables have no significant impact on ROE. Table 5 presents the different results of this research on the deter-

Table 2. Descriptive statistics

Research variables	Mean	Std. dev.	Min	Max
ROA	0.0331918	0.1317943	–1.079912	0.9662979
ROE	0.0173475	0.7964414	–13.64361	2.734975
GPM	27.53972	2.135315	18.22967	33.47603
Board Members	8.193095	2.610391	5	17
Board Meeting	43.88747	43.57994	12	255
Commissioners Members	7.086957	2.133834	3	14
Commissioners Meeting	16.06905	15.01098	3	63
Percentage of Independent Commissioners Members	43.23439	11.6688	25	83.33
GRI	0.6331921	0.1018818	0.34375	0.90625
Ln_Innovation	24.93586	1.776001	20.78245	32.13863
Ln_Size	3.345724	0.0562976	3.204978	3.518693
Ln_Equity	3.322211	0.0618297	3.121042	3.507697

Table 3. Panel data regression model analysis results (ROA)

Variables	ROA		
	OLS	FE	RE
Board members	.00186743	.00211978	.00186743
Board meetings	.00015651	.000164	.00015651
Commissioners' Members	–.003301	–.00353116	–.003301
Commissioners Meeting	–.00019781	–.00020484	–.00019781
Percentage of Independent Commissioners Members	–.00071176	–.00075551	–.00071176
GRI	.10382224*	.10105182*	.10382224*
Ln_Innovation	.020903***	.02189183***	.020903***
Ln_Size	–.82891145***	–.84480993***	–.82891145***
Ln_Equity	.65212973***	.6408027***	.65212973***
Cons	.08819084	.15735015	.08819084
R^2	.08974252		
Adjusted R^2	.07433452		

Note: * p < 0.05; ** p < 0.01; *** p < 0.001.

minants of GPM. The p-value of the percentage of independent commissioners, innovation, size, and equity is less than 0.05. It indicates that GPM was determined significantly by the percentage of independent commissioners, innovation, size, and equity. The percentage of independent commissioners hurts the GPM of the Indonesian manufacturing listed companies, while innovation, size, and equity have a positive impact on the GPM of the Indonesian manufacturing listed companies.

Table 4. Panel data regression model analysis results (ROE)

Variables	ROE		
	OLS	FE	RE
Board members	.01049216	.01173874	.01049216
Board meetings	.00017823	.00013658	.00017823
Commissioners' members	.00508306	.003957	.00508306
Commissioners Meeting	–.00079055	–.00063502	–.00079055
Percentage of Independent Commissioners members	–.00444533	–.00485541	–.00444533
GRI	.18202698	.17256856	.18202698
Ln_Innovation	–.01944459	–.01391569	–.01944459
Ln_Size	–.40732983	–.46581463	–.40732983
Ln_Equity	–.05973907	–.15580231	–.05973907
Cons	2.0233215	2.4210841	2.0233215
R^2	.0103081		
Adjusted R^2	–.0064445		

Note: * p < 0.05; ** p < 0.01; *** p < 0.001.

Table 5. Panel data regression model analysis results (GPM)

Variables	GPM		
	OLS	FE	RE
Board members	.04039158	.01064863	.04039158
Board meetings	–.00053716	.00045193	–.00053716
Commissioners' members	–.02132373	.00368786	–.02132373
Commissioners Meeting	–.00033155	–.00357675	–.00033155
*Percentage of Independent Commissioners member*s	–.01407224**	–.00586406	–.01407224**
GRI	–.60786684	.56478727	–.60786684
Ln_Innovation	.34252388***	.28402552***	.34252388***
Ln_Size	12.15155***	12.26761***	12.15155***
Ln_Equity	8.6479601***	10.630556***	8.6479601***
Cons	–49.545085***	–56.083507***	–49.545085***
R^2	.71017389		
Adjusted R^2	.70526798		

Note: * p < 0.05; ** p < 0.01; *** p < 0.001.

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Table 6. The results of hypotheses testing

Research Variables	Coefficient	Std. err.	z	P>|z|	Decision
ROA is the dependent variable					
Board members	0.00186743	0.002754	0.68	0.498	Rejected
Board meetings	0.00015651	0.0001226	1.28	0.202	Rejected
Commissioners' members	–0.003301	0.0026701	–1.24	0.216	Rejected
Commissioners Meeting	–0.00019781	0.000379	–0.52	0.602	Rejected
Percentage of Independent Commissioners members	–0.00071176	0.0005133	–1.39	0.166	Rejected
GRI	0.10382224	0.0449642	2.31	0.021	Accepted
Ln_Innovation	0.020903	0.0044904	4.66	0.000	Accepted
Ln_Size	–0.82891145	0.2004308	–4.14	0.000	Accepted
Ln_Equity	0.65212973	0.1671685	3.9	0.000	Accepted
ROE is the dependent variable					
Board members	0.01049216	0.017332	0.61	0.545	Rejected
Board meetings	0.00017823	0.000772	0.23	0.817	Rejected
Commissioners' members	0.00508306	0.016804	0.30	0.762	Rejected
Commissioners Meeting	–0.00079055	0.002385	–0.33	0.740	Rejected
Percentage of Independent Commissioners members	–0.0044533	0.003231	–1.38	0.169	Rejected
GRI	0.18202698	0.282979	0.64	0.520	Rejected
Ln_Innovation	–0.0194459	0.02826	–0.69	0.491	Rejected
Ln_Size	–0.40732983	1.261398	–0.32	0.747	Rejected
Ln_Equity	–0.05973907	1.052063	–0.06	0.955	Rejected
GPM is the dependent variable					
Board members	0.04039158	0.0273986	1.47	0.140	Rejected
Board meetings	–0.00053716	0.0012196	–0.44	0.660	Rejected
Commissioners' members	–0.02132373	0.0265637	–0.80	0.422	Rejected
Commissioners Meeting	–0.00033155	0.0037703	–0.09	0.930	Rejected
Percentage of Independent Commissioners members	–0.01407224	0.0051067	–2.76	0.006	Accepted
GRI	–0.60786684	0.4473267	–1.36	0.174	Rejected
Ln_Innovation	0.34252388	0.0446727	7.67	0.000	Accepted
Ln_Size	12.15155	1.993989	6.09	0.000	Accepted
Ln_Equity	8.6479601	1.663078	5.20	0.000	Accepted

Table 6 presents the results of hypothesis testing. GRI, innovation, size, and equity were found to have a significant influence on ROA, with a p-value of less than 0.05. Meanwhile, no independent variables had a significant influence on ROE, so all proposed hypotheses were rejected. In addition, the percentage of independent commissioners, innovation, size, and equity were shown to significantly determine the GPM level with a p-value of less than 0.05.

4. DISCUSSION

The findings of this study suggest that no single governance mechanism can significantly influence ROA and ROE. However, the percentage of independent commissioners has a significantly negative impact on the GPM of Indonesian manufacturing companies listed on the stock exchange. This differs from the agency theory view, which holds that corporate governance mechanisms are essential for influencing ROA and ROE, as leading indicators of a firm's financial performance. Good corporate governance mechanisms contribute to increased ROA and ROE by ensuring efficiency in asset management, business strategy effectiveness, and capital management accountability. This creates a conducive environment for profit growth and shareholder welfare. ROA measures a company's efficiency in utilizing its assets to generate profits. Good governance mechanisms can increase ROA through transparency and accountability, the effectiveness of the board of directors and commissioners, and sound risk management. The ROE indicates how effectively a company utilizes its equity to generate returns on investment. Good governance mechanisms affect the ROE through management supervision, ownership structures, cost controls, and financial efficiency. Various business communities and companies recognize corporate governance as a key factor in improv-

ing corporate financial performance (Khan et al., 2024). This finding is inconsistent with the results of previous research that found a significant influence of governance mechanisms on company performance. Empirical studies have shown that effective governance at the national level positively impacts sustainability performance. By contrast, strong corporate governance shows a negative correlation with sustainability performance (Pratama & Hermawan, 2023).

Sustainability performance refers to a company's ability to manage its social, environmental, and economic impacts responsibly. This significantly impacts the company's overall performance, both in the short and long term. Companies that effectively utilize sustainability strategies enjoy competitive advantages, increase shareholder value, and build a foundation for long-term growth. Research shows that, while sustainability can incur additional costs in the short term, its benefits to reputation, efficiency, and risk mitigation often improve a company's performance in the long term. Thus, sustainability performance drives sustainable growth and improves business sustainability. Consumers, investors, and the public tend to view companies with strong sustainability performance more favorably. This can increase customer loyalty, attract investors, and create a competitive advantage. Good sustainability performance helps companies identify and mitigate ESG risks, ultimately maintaining stable financial performance. Investors and financial institutions are increasingly prioritizing companies with good sustainability performance. Companies with strong sustainability track records are more likely to obtain funding at lower capital costs.

The results indicate a significant influence of GRI as a sustainability reporting measure on the ROA of manufacturing companies in Indonesia. These results support the notion that sustainability performance has a significant impact on firm performance. Reporting on corporate sustainability plays a crucial role in generating value for stakeholders and supporting the company's long-term success. The relationship between corporate sustainability reporting and company performance can be explained using legitimacy and stakeholder theories (Shah et al., 2024). According to stakeholder theory, sustainability performance represents a broader form of accountability to stakeholders. Sustainability reporting contains information related to social and environmental performance that can be accessed by stakeholders, including investors, and can influence their decisions (Hörisch et al., 2020). Investors can benefit from the information disclosed in the report, enabling them to provide an informed assessment, which in turn can improve the company's performance.

Previous studies have provided empirical evidence that sustainability performance is a significant predictor of company performance (Taha et al., 2023). Sustainability performance is strongly correlated with company performance (Maldonado-Guzmán et al., 2023). Sustainability reporting significantly affects return on assets (Sumaryati & Rohman, 2019). Corporate environmental sustainability performance significantly influences firm value (Kheireddine et al., 2023). Integrated reporting disclosures can increase company value (Machmuddah et al., 2023). There is a significant relationship between ESG and a bank's financial performance (ROA, ROE, NIM) (Loan et al., 2024). The other findings also show a significant relationship between environmental sustainability and company performance (Al Frijat et al., 2025). However, other empirical studies found a negative influence of CSP on earnings management, as measured by the manipulation of actual activities and discretionary accruals (Nguyen, 2024). ESG scores do not have a significant impact on the profitability of Stoxx Europe 600 firms (Musa et al., 2024).

This study also analyzes the impact of innovation on company performance. The results support the view that innovation significantly affects company performance (ROA and GPM). The results of this study support the upper echelons theory, which holds that companies that effectively manage their resources can create competitive advantages and achieve long-term success. A company's top management, which can carry out its responsibilities, produces power for the company. A company's innovation and technology reflect its top management's values. Therefore, the expertise and competence of top management encourage the adoption of the latest technology, ultimately leading to improved company efficiency and performance. Although it requires careful investment and risk

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management, the benefits of creating new value, increasing competitiveness, and supporting long-term growth make innovation an essential element for the success of companies in the modern era. Continuous innovation is a catalyst for long-term growth. Companies that continue to innovate tend to be more adaptive to changes in the market, technology, and consumer needs, thereby maintaining their business relevance and sustainability. Innovation in business processes, such as automation or digitalization, can improve operational efficiency. This helps reduce production costs and increase output, thereby driving profitability. Product or service innovation creates a unique value that is difficult for competitors to imitate, thereby giving the company a stronger market position and increasing its market share. Previous studies have shown that innovation has a significant impact on the financial performance of MSMEs in Mexico (Valdez-Juárez et al., 2024). Other previous research results indicate that the application of financial technology as a form of innovation can increase the stability and adaptability of the industry, making it more resilient in the face of economic disruption or pressure (Rahman et al., 2023).

CONCLUSION

This study examines the influence of governance, sustainability performance, and innovation on the performance of manufacturing companies listed on the Indonesian stock exchange. The results indicate that governance mechanisms do not significantly impact firm performance (as measured by ROA and ROE). However, the proportion of independent commissioners has a significant and negative impact on the GPM of manufacturing listed companies in Indonesia. Other results show that sustainability performance (measured by the GRI index) can significantly determine firm performance (measured by ROA). Innovation also significantly affects ROA and GPM.

This study has some limitations. First, this study focused on manufacturing companies, although the sector significantly influences the Indonesian economy. Second, the measurement of innovation and technology variables can be developed, as this study builds upon previous research questionnaires with varying data measurements. Future research can examine the impact of governance attributes, including diversity, the presence of women, and other relevant factors. Using different data sources, sustainability performance measurements can be expanded into three categories (environmental, social, and others). Future studies should comprehensively examine the influence of sustainability performance on company performance.

This research offers various practical and policy-related implications. Primarily, the findings provide empirical support for the critical role of sustainability policy implementation within companies, as such policies have a significant influence on financial performance. Considering this, policymakers in Indonesia are urged to enhance the effectiveness and quality of sustainability-oriented policy execution. Second, innovation is the next important factor in improving financial performance. Companies should be able to encourage investment in innovation and technology to deliver products and services that are pro-sustainability and in line with technological developments. Finally, the role of independent commissioners can be enhanced because it will have a positive impact on sustainability performance.

AUTHOR CONTRIBUTIONS

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