



Financial Resources, Corporate Governance, and Sustainability Performance: The Mediating Role of Financial Performance in Indonesian Manufacturing Firms

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Abstract:

This study investigates the relationships between financial resources, corporate governance, and corporate sustainability performance (CSP) in Indonesian manufacturing firms, with financial performance (FP) as a mediating mechanism. Although the Financial Services Authority's (OJK) Sustainable Finance Roadmap encourages sustainability practices, sustainability disclosure among Indonesian firms remains inconsistent, and evidence regarding the role of internal financial resources in achieving CSP is inconclusive. Using a quantitative explanatory approach, this study applies Partial Least Squares Structural Equation Modeling (PLS-SEM) to 19 manufacturing firms listed on the Indonesia Stock Exchange with complete financial and sustainability reports during 2020–2024, resulting in 95 firm-year observations. The results show that corporate governance has a positive direct effect on CSP, whereas financial slack, financial capacity, and growth options exhibit significant negative direct effects. FP does not directly affect CSP but significantly mediates the relationship between financial resources and CSP, except for the governance–CSP relationship. These findings reveal a Financial Resource Sustainability Paradox, indicating that resource availability alone does not ensure sustainability commitment. This study contributes an integrated Financial Resource, Governance, and Sustainability framework and highlights the importance of governance mechanisms and effective financial resource conversion to improve sustainability outcomes.

INTRODUCTION

Sustainability reporting among Indonesian manufacturing firms remains uneven despite a decade of regulatory encouragement. Following the enactment of POJK No. 51/POJK.03/2017 on the Application of Sustainable Finance and the OJK Sustainable Finance Roadmap Phase II (2021–2025), listed firms are required to disclose environmental, social, and governance (ESG) practices through annual sustainability reports. However, recent assessments indicate that while formal compliance with these requirements is relatively high, the substantive depth and comparability of the resulting disclosures vary considerably across issuers. This gap between regulatory mandate and disclosure quality is particularly consequential in the manufacturing sector, which

combines high resource intensity, direct environmental impact, and a central role in national economic output (Huang & Qiu, 2023). At the same time, the post-COVID-19 recovery period has intensified pressure on manufacturing firms to restore profitability and pursue growth, creating a potential trade-off between short-term financial recovery and long-term sustainability commitments. Corporate sustainability performance (CSP) has emerged as a critical dimension of corporate strategy under these conditions, reflecting the extent to which firms integrate ESG principles into their operations and long-term planning (Nishitani et al., 2017). However, empirical evidence on what actually drives CSP in this context, particularly the relative roles of internal financial resources and governance mechanisms, remains inconsistent.

This study is anchored primarily in the Resource-Based View (RBV), which posits that competitive advantage – including the capacity to invest in sustainability stems from the possession and effective deployment of valuable (Alam & Tariq, 2023), rare, and inimitable internal resources. Within this lens, financial slack, financial capacity (Kyere & Ausloos, 2021), and growth options represent strategic financial resources that firms can mobilize to support environmental and social initiatives. RBV alone, however, cannot fully explain why resource availability does not automatically translate into sustainability performance; the deployment of these resources depends on how they are governed and managed.

Agency theory is employed here as a supporting theoretical lens specifically to explain the governance mechanism in the model, rather than as a freestanding, parallel framework. It emphasizes that conflicts of interest between managers and shareholders may lead to the misallocation of resources (Baker et al., 2023), including those earmarked for sustainability investments (Al-Hamdany & Fadhil Mahmood, 2023). Corporate governance (CG) functions as a control mechanism that aligns managerial decisions with long-term stakeholder interests (Martínez - Ferrero & Frias - Aceituno, 2015), including environmental and social responsibilities. Positioned this way, agency theory explains the governance pathway while RBV explains the resource pathway, avoiding the redundancy of applying multiple theories to the same relationships. Stakeholder theory, in turn, is invoked at the level of implication rather than as a core analytical framework: it helps interpret why governance-driven sustainability outcomes matter for balancing the interests of diverse constituencies employees (Rahi et al., 2024), communities, regulators, and investors in the pursuit of sustainable value creation, without duplicating the explanatory role already assigned to RBV and agency theory.

Existing literature presents two distinct types of gaps that motivate this study. Conceptually, prior research has often examined determinants of CSP in isolation (Laskar et al., 2017), focusing either on financial resources or governance structures without integrating both dimensions into a unified framework (Lu, 2021; Cho et al., 2019), and the mechanism through which financial performance translates internal resources into sustainability outcomes remains theoretically underdeveloped (Mappadang et al., 2018). Empirically, findings on the relationship between financial resources and CSP are mixed: some studies report positive associations (Safinatunnayah et al., 2024), while others report negative or insignificant effects (Ramadhan & Nugroho, 2024). This inconsistency is particularly pronounced in emerging markets, where institutional pressures and resource constraints differ markedly from developed economies, and where context-specific investigation remains limited (Rahmah et al., 2025).

This study addresses existing research gaps by proposing and empirically testing an integrative Financial Resource, Governance, and Sustainability framework. The framework conceptualizes corporate sustainability performance (CSP) as being influenced through two distinct pathways: a direct governance pathway (corporate governance → CSP) and an indirect resource-transformation pathway (financial resources → financial performance → CSP). By positioning financial performance as a selective mediating mechanism, this study examines how internal financial resources are transformed into sustainability outcomes without claiming to establish an entirely new theory.

The contribution of this study is threefold. Conceptually, it integrates the Resource-Based View (RBV) and agency theory, with stakeholder theory serving as an interpretive perspective, into a unified model that differentiates direct and mediated mechanisms affecting CSP. Empirically, this study identifies an inconsistent mediation pattern in which financial slack, financial capacity (Erbetta et al., 2023), and growth option (Laskar & Gopal Maji, 2018) may produce negative direct effects on CSP while generating positive indirect effects through financial performance (Jha & Rangarajan, 2020). Contextually, the study contributes evidence from the Indonesian manufacturing sector, a resource-intensive emerging-market context characterized by heterogeneous ESG adoption.

From an RBV perspective, financial slack, financial capacity, and growth options are generally expected to provide firms with resources that enable sustainability investments. However, the free cash flow hypothesis introduces a competing argument, suggesting that excessive internal resources without effective governance controls may be allocated toward managerial discretion, operational expansion, or short-term financial objectives rather than long-term ESG commitments (Lo & Liao, 2021; Grewatsch & Kleindienst, 2017). This tension becomes increasingly relevant in the post-pandemic recovery period, where manufacturing firms face pressure to restore profitability and strengthen market positions. Therefore, this study empirically examines the following hypotheses:

H1: Financial slack has a significant effect on corporate sustainability performance;

H2: Financial capacity has a significant effect on corporate sustainability performance;

H3: Growth option has a significant effect on corporate sustainability performance.

Furthermore, agency theory suggests that effective governance mechanisms, including independent boards, audit and remuneration committees, ownership transparency, and disclosure practices, reduce principal–agent conflicts and encourage managerial commitment toward long-term value creation, including sustainability objectives (Rashid & Kabir, 2025).

H4: Corporate governance has a significant positive effect on corporate sustainability performance.

Financial performance is proposed as a mediating mechanism that explains how financial resources are translated into sustainability outcomes. Financial resources are not assumed to generate sustainability improvements directly; instead, they must first contribute to stronger profitability, which subsequently enables firms to allocate resources toward ESG initiatives (Omran et al., 2021). In contrast, corporate governance is expected to influence CSP through a non-financial pathway involving stakeholder legitimacy, accountability, and institutional compliance rather than profitability generation. Based on this argument, the following hypotheses are proposed:

H5: Financial performance has a significant positive effect on corporate sustainability performance;
H6a: Financial performance mediates the relationship between financial slack and corporate sustainability performance;
H6b: Financial performance mediates the relationship between financial capacity and corporate sustainability performance;
H6c: Financial performance mediates the relationship between growth option and corporate sustainability performance; and
H6d: Financial performance mediates the relationship between corporate governance and corporate sustainability performance.

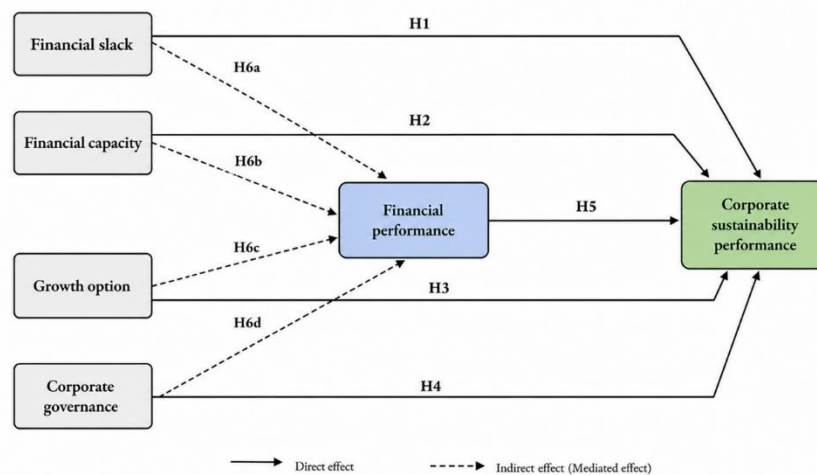


Figure 1. Research Framework

RESEARCH METHODS

This study employed a quantitative research design with an explanatory approach to examine causal relationships among variables through hypothesis testing (Creswell, 2013). The research framework was developed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which enables the simultaneous analysis of multiple relationships among latent constructs, including direct and indirect effects through mediation mechanisms (Hair et al., 2017). PLS-SEM was selected instead of covariance-based SEM due to its suitability for studies with relatively small sample sizes, non-normally distributed data, and predictive-oriented research objectives, particularly in exploratory contexts (Rahi, 2017).

The study focused on manufacturing firms listed on the Indonesia Stock Exchange (BEI) during 2020–2024. The manufacturing sector was selected due to its high resource intensity, substantial environmental impact, and significant contribution to Indonesia's economic development. In addition, this sector represents one of the most active areas in sustainability and ESG reporting practices in Indonesia. The observation period of 2020–2024 was chosen as it represents a critical transition period marked by intensified Sustainable Development Goals (SDGs) implementation after the COVID-19 pandemic, strengthened sustainability regulations through POJK No. 51/POJK.03/2017 and the OJK Sustainable Finance Roadmap Phase II, as well as economic recovery dynamics influencing corporate financial and sustainability strategies.

The population consisted of 228 manufacturing companies listed on BEI during the research period, covering six industrial sectors: basic materials and chemicals,

miscellaneous industries, consumer goods, non-primary consumer goods, health, and technology. A purposive sampling technique was applied because the study relies on financial ratio measurements and sustainability disclosure content analysis, requiring firms with complete and consistent reporting data. The selection criteria included: (1) manufacturing firms listed on BEI throughout 2020–2024; (2) firms publishing complete annual financial reports consistently; (3) firms issuing sustainability reports continuously during the observation period; and (4) firms with available ESG-related data. Based on these criteria, 19 firms were selected, producing 95 firm-year observations (19 firms × 5 years). Although this sample represents a limited proportion of the total population, the selection process prioritizes data completeness and measurement reliability over sample size, consistent with comparable ratio-based PLS-SEM studies (Al-Hamdany & Mahmood, 2023). This methodological consideration is further acknowledged as a limitation in the concluding section.

Table 1. Sample Selection Process

Screening Stage	Description	Firms Excluded	Firms Remaining
Population	All manufacturing firms listed on BEI, 2020–2024	–	228
Criterion 1	Continuously listed on BEI throughout 2020–2024	171	153
Criterion 2	Publishes complete annual financial reports consistently	93	84
Criterion 3	Issues sustainability reports continuously during the observation period	38	24
Criterion 4	Complete ESG data available for all indicators	19	19

All variables were measured using secondary data extracted from annual reports, sustainability reports, and financial statements obtained from the official BEI website and company disclosures. Table 2 summarizes the operational definitions and measurement approaches for each variable.

Table 2. Operational Variables

Variable	Definition	Indicator	Scale
Financial Slack (X1)	Excess short-term financial resources available for flexible strategic use	Working Capital to Total Assets	Ratio
Financial Capacity (X2)	Firm's ability to generate internal financial resources	Free Cash Flow Margin (FCF/Revenue)	Ratio
Growth Option (X3)	Future growth opportunities reflected in market valuation	Price to Book Value (PBV)	Ratio
Corporate Governance (X4)	Mechanisms ensuring transparency, accountability, and oversight	Composite index from 10 indicators (0–2 scale)	Index
Financial Performance (Z)	Firm's ability to generate profit efficiently	Return on Assets (ROA)	Ratio
Corporate Sustainability Performance (Y)	Integration of ESG aspects into strategy and operations	Content analysis of E, S, G disclosures (0–2 scale)	Index

Financial Slack was measured as working capital slack, calculated as the difference between current assets and current liabilities divided by total assets (Hair et al., 2019).

This ratio reflects the availability of liquid resources relative to firm size. Financial Capacity was proxied through Free Cash Flow (FCF) margin, computed as operating cash flow minus capital expenditures divided by revenue (Jha & Rangarajan, 2020). FCF represents internal funds available for strategic activities after maintaining operational assets. Growth Option was measured using the Price-to-Book Value (PBV) ratio, reflecting the market's valuation of future growth opportunities relative to book equity (Tseng et al., 2018).

Corporate Governance was assessed through content analysis based on 10 indicators covering five dimensions: board structure (independent commissioner proportion and chairman separation), governance committees (audit committee independence and nomination and remuneration committee), ownership structure (institutional ownership and managerial ownership), transparency and disclosure (remuneration disclosure and related-party transaction disclosure), and board performance and ethics (board performance evaluation and code of ethics and whistleblowing system). Each indicator was assigned a score of 0 (not disclosed), 1 (partially disclosed), or 2 (fully disclosed), with the total score normalized into a 0–1 scale.

Financial Performance was measured using Return on Assets (ROA), calculated as net income divided by total assets, which reflects the firm's efficiency in generating profits from its asset base. Meanwhile, Corporate Sustainability Performance (CSP) was measured through content analysis of sustainability disclosures based on SEOJK No. 16/SEOJK.04/2021 standards and Global Reporting Initiative (GRI) guidelines. The assessment covered three ESG pillars: Environmental, Social, and Governance. Each indicator was scored as 0 (no disclosure), 1 (qualitative disclosure only), or 2 (quantitative and qualitative disclosure), and the aggregate score was normalized to generate a composite CSP index. Consistent with previous studies (Huang & Qiu, 2023), CSP in this study represents the extent and quality of sustainability disclosure rather than directly observed environmental or social outcomes. This measurement characteristic is acknowledged as a limitation, and future research is encouraged to incorporate externally verified ESG ratings where available.

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. The analysis followed two main stages: measurement model assessment and structural model assessment. The measurement model (outer model) was evaluated through convergent validity, discriminant validity, and reliability testing. Convergent validity was assessed using outer loadings and Average Variance Extracted (AVE), with recommended thresholds of loading values above 0.70 and AVE above 0.50 (Hair et al., 2019). Discriminant validity was examined using the Fornell–Larcker criterion and cross-loadings, while reliability was evaluated through Cronbach's alpha and composite reliability, with values above 0.70 indicating acceptable internal consistency.

The structural model (inner model) assessment was conducted by evaluating the coefficient of determination (R^2), predictive relevance (Q^2), effect size (f^2), and hypothesis testing through path coefficients. The R^2 value was used to determine the explanatory power of the model, while Stone–Geisser's Q^2 value was applied to assess predictive capability, with values greater than zero indicating predictive relevance. Effect sizes (f^2) were calculated to identify the contribution magnitude of each predictor variable. Path coefficients were estimated using bootstrapping with 5,000 resamples to obtain t-statistics and p-values for hypothesis testing. Mediation analysis was performed by

examining the significance of specific indirect effects, where full mediation occurs when the direct effect becomes insignificant after introducing the mediator. In contrast, partial mediation occurs when both direct and indirect effects remain significant (Rahi, 2017).

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2 presents the descriptive statistics for all variables in the study. Financial slack (FS) exhibited a mean of 2.119, indicating that sample firms generally maintained working capital reserves above twice their total assets. Financial capacity (FC) showed substantial variation, with a minimum of -31.59 and maximum of 28.29, reflecting divergent cash flow conditions across firms. Growth option (GO) ranged from 0 to 56.74, with a mean of 4.523, indicating heterogeneous growth prospects. Corporate governance (CG) averaged 0.697 on a 0–1 scale, suggesting moderate governance quality. Financial performance (FP) had a mean ROA of 7.959%, while CSP averaged 0.263, indicating considerable room for improvement in sustainability disclosure and practice.

Table 3. Descriptive Statistics

Variable	Mean	SD	Median	Min	Max
Financial Slack (FS)	2.119	1,05	1.920	0.110	5.330
Financial Capacity (FC)	7.305	12,07	7.120	-31.590	28.290
Growth Option (GO)	4.523	11,44	2.210	0.000	56.740
Corporate Governance (CG)	0.697	0,10	0.700	0.450	0.950
Financial Performance (FP)	7.959	7,03	6.000	0.010	34.890
Corporate Sustainability Performance (CSP)	0.263	0,09	0.250	0.100	0.540

Because all substantive variables in this study were measured using single indicators derived from financial ratios and content-analysis-based indices, the measurement model assessment followed a simplified, formative-style approach consistent with the justification provided in the Data Analysis section. Outer loadings for all single-indicator constructs were equal to 1.000, as each manifest indicator perfectly represented its latent construct by definition. Table 4 presents the composite reliability and Cronbach's alpha values, reported here for completeness rather than as the primary basis for validity assessment

Table 4. Composite Reliability and Cronbach's Alpha

Variable	Composite Reliability	Cronbach's Alpha
Financial Slack (FS)	1.000	1.000
Financial Capacity (FC)	1.000	1.000
Growth Option (GO)	1.000	1.000
Corporate Governance (CG)	1.000	1.000
Financial Performance (FP)	1.000	1.000
Corporate Sustainability Performance (CSP)	1.000	1.000

Table 5 reports inner VIF values for all predictor constructs in the structural model, addressing the collinearity diagnostic recommended by Hair et al. (2019) for PLS-SEM structural models.

Table 5. Collinearity Statistics (Inner VIF)

Predictor	VIF ($\rightarrow$ FP)	VIF ($\rightarrow$ CSP)	Threshold
Financial Slack (FS)	1.072	1.097	< 3.3 – 5.0
Financial Capacity (FC)	5.242	5.274	< 3.3 – 5.0
Growth Option (GO)	5.354	5.356	< 3.3 – 5.0
Corporate Governance (CG)	1.101	1.455	< 3.3 – 5.0
Financial Performance (FP)	1.414	–	< 3.3 – 5.0

Discriminant validity was further examined through the inter-construct correlation matrix (Fornell–Larcker approach). Because every construct in this study was measured with a single indicator, the square root of the Average Variance Extracted equals 1.000 for each construct by construction, so discriminant validity is satisfied whenever this value exceeds the construct's correlations with all other constructs. Table 3a presents the latent variable correlation matrix used for this assessment.

Table 6. Latent Variable Correlations (Discriminant Validity)

Construct	CG	CSP	FC	FP	FS	GO
CG	1.000	-0.150	0.166	-0.086	0.058	-0.101
CSP	-0.150	1.000	-0.254	0.164	-0.169	-0.399
FC	0.166	-0.254	1.000	0.694	0.398	0.483
FP	-0.086	0.164	0.694	1.000	0.339	0.699
FS	0.058	-0.169	0.398	0.339	1.000	0.239
GO	-0.101	-0.399	0.483	0.699	0.239	1.000

The correlation matrix indicates that inter-construct correlations range from a weak relationship of -0.399 (GO–CSP) to a moderately strong relationship of 0.699 (GO–FP). All diagonal values, representing the square root of Average Variance Extracted (AVE), are equal to 1.000 and exceed the corresponding off-diagonal correlations. These results confirm that each construct demonstrates sufficient discriminant validity, indicating that the constructs capture distinct variance from one another. Therefore, the measurement model meets the discriminant validity requirement, supporting the appropriateness of proceeding with the structural model evaluation. Figure 2 presents the path diagram results obtained from the PLS-SEM bootstrapping procedure, illustrating the estimated path coefficients for all direct relationships examined in the structural model.

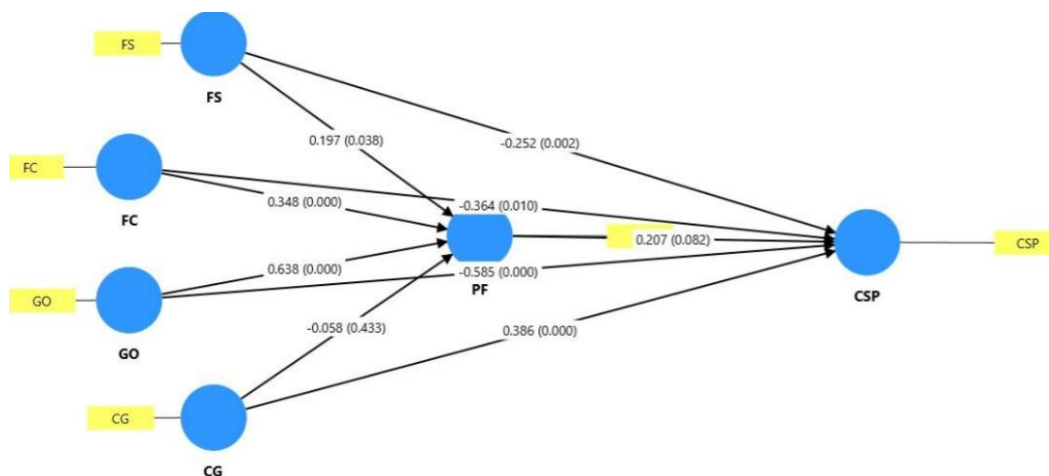


Figure 2. Bootstrapping Path Diagram Results

Table 7 reports the R^2 values for the endogenous constructs. The R^2 for Corporate Sustainability Performance (CSP) was 0.383, indicating that 38.3% of the variance in CSP is explained by the exogenous variables in the model; the adjusted R^2 was 0.348. It should be noted that CSP is a complex construct shaped by numerous factors beyond the scope of this model, including sector-specific regulation, stakeholder pressure, and the broader institutional environment (Rahi, 2017) an R^2 of 0.383 is therefore best interpreted as a moderate, rather than weak, level of explanatory power for a firm-level sustainability outcome, and is broadly in line with R^2 values reported in related PLS-SEM studies of CSP determinants in emerging markets (Rahi et al., 2024). The R^2 for Financial Performance (FP) was 0.571, indicating that the financial resource and governance variables collectively explain 57.1% of the variance in firm profitability.

Table 7. R-Square Values

Endogenous Variable	R^2	Adjusted R^2
Corporate Sustainability Performance (CSP)	0.383	0.348
Financial Performance (FP)	0.571	0.552

Table 8 presents the effect sizes for each predictor. Corporate governance exhibited the largest effect on CSP ($f^2 = 0.208$, medium effect), followed by growth option ($f^2 = 0.256$, medium effect), financial capacity ($f^2 = 0.153$, medium effect), and financial slack ($f^2 = 0.089$, small effect). Financial performance's effect on CSP was relatively weak ($f^2 = 0.028$). Notably, growth option demonstrated the strongest effect on financial performance ($f^2 = 0.860$), far exceeding the threshold for a large effect.

Table 8. Effect Sizes (f^2)

Relationship	f^2	Effect Size
CG $\rightarrow$ CSP	0.208	Medium
FC $\rightarrow$ CSP	0.153	Medium
FS $\rightarrow$ CSP	0.089	Small
GO $\rightarrow$ CSP	0.256	Medium
FP $\rightarrow$ CSP	0.028	Small
CG $\rightarrow$ FP	0.007	Small
FC $\rightarrow$ FP	0.270	Medium
FS $\rightarrow$ FP	0.091	Small
GO $\rightarrow$ FP	0.860	Large

The Stone–Geisser Q^2 values, obtained through blindfolding procedures, are reported in Table 6. The Q^2 for CSP was 0.303, exceeding the threshold of 0.15 and approaching the large effect threshold of 0.35, indicating moderate-to-strong predictive relevance. The Q^2 for FP was 0.548, well above 0.35, demonstrating strong predictive relevance.

Table 9. Predictive Relevance (Q^2)

Endogenous Variable	Q^2
Corporate Sustainability Performance (CSP)	0.303
Financial Performance (FP)	0.548

Table 10 summarizes the path coefficients, t-statistics, p-values, and hypothesis decisions for all direct effects.

Table 10. Path Coefficients (Direct Effects)

Path	Coefficient	T-Statistic	P-Value	Decision
CG → CSP	0.386	4.030	0.000	Supported
FC → CSP	-0.364	2.569	0.010	Supported (negative)
FS → CSP	-0.252	3.152	0.002	Supported (negative)
GO → CSP	-0.585	4.587	0.000	Supported (negative)
FP → CSP	0.207	1.737	0.082	Not Supported

Financial Slack (H1). Financial slack exhibited a significant negative effect on CSP ($\beta = -0.252$, $t = 3.152$, $p = 0.002$), contrary to the hypothesized positive relationship. This result implies that working capital reserves are more frequently directed toward buffering operational uncertainty and financing immediate needs rather than sustainability programs. Without strategic commitment and governance direction, excess liquidity does not automatically translate into environmental or social investments. The finding is consistent with (Gruener & Raastad, 2018), who argued that slack resources provide flexibility but their deployment depends on managerial priorities.

Financial Capacity (H2). Financial capacity demonstrated a significant negative effect on CSP ($\beta = -0.364$, $t = 2.569$, $p = 0.010$), rejecting the hypothesized positive direction. This counterintuitive finding suggests that firms with higher free cash flow margins do not necessarily allocate those resources to sustainability initiatives. Instead, in the post-pandemic recovery context, manufacturing firms may prioritize operational expansion, efficiency improvements, and short-term financial returns over ESG investments. This pattern is consistent with the free cash flow hypothesis (Kadioglu & Yilmaz, 2017) (Yaari et al., 2016), which warns that excess cash can lead to opportunistic managerial behavior unless constrained by effective governance.

Growth Option (H3). Growth option showed a significant negative effect on CSP ($\beta = -0.585$, $t = 4.587$, $p < 0.001$), contradicting the expected positive relationship. Firms with high growth prospects tend to prioritize business expansion, market penetration, and capacity enhancement over long-term sustainability investments that yield uncertain and deferred returns. This trade-off between growth and sustainability has been documented in prior literature (Victor & Dolter, 2017), particularly in capital intensive manufacturing sectors where expansion decisions consume the majority of available resources.

Corporate Governance (H4). Corporate governance exhibited a significant positive effect on CSP ($\beta = 0.386$, $t = 4.030$, $p < 0.001$), supporting H4. This finding indicates that stronger governance mechanisms including independent board structures, transparent disclosure practices, and effective oversight committees directly enhance a firm's sustainability performance. The result aligns with agency theory, which posits that robust governance reduces principal agent conflicts and channels managerial attention toward long-term value creation, including ESG commitments (Rau & Yu, 2024). It also resonates with stakeholder theory, as good governance signals accountability to diverse stakeholders and strengthens the firm's social license to operate (Rashid & Kabir, 2025).

Financial Performance (H5). Financial performance did not exhibit a significant direct effect on CSP ($\beta = 0.207$, $t = 1.737$, $p = 0.082$), failing to support H5. This finding suggests that profitability alone does not determine sustainability performance; rather, the allocation of financial resources toward ESG depends on strategic orientation,

stakeholder pressure, and governance mechanisms rather than mere financial capacity.

Table 11 presents the results of the mediation analysis, examining whether financial performance transmits the effects of exogenous variables to CSP.

Table 11. Specific Indirect Effects (Mediation Results)

Indirect Path	Coefficient	T-Statistic	P-Value	Decision
CG → FP → CSP	-0.058	0.784	0.433	Not Supported
FC → FP → CSP	0.348	3.855	0.000	Supported
FS → FP → CSP	0.197	2.079	0.038	Supported
GO → FP → CSP	0.638	6.118	0.000	Supported

Financial Capacity Mediation (H6b). Financial performance significantly mediated the relationship between financial capacity and CSP (indirect effect = 0.348, $t = 3.855$, $p < 0.001$), supporting H6b. This result indicates that while financial capacity exerts a negative direct effect on CSP, it simultaneously enhances financial performance, which in turn contributes positively to sustainability outcomes. The dual pathway reveals an inconsistent mediation pattern: financial capacity indirectly supports CSP through profitability, even though its direct association is negative.

Financial Slack Mediation (H6a). Financial performance significantly mediated the relationship between financial slack and CSP (indirect effect = 0.197, $t = 2.079$, $p = 0.038$), supporting H6a. Slack resources enhance profitability, and improved profitability subsequently enables sustainability investments. However, without the financial performance channel, slack resources do not directly advance CSP, suggesting that resource availability must be converted into operational efficiency before sustainability benefits materialize.

Growth Option Mediation (H6c). Financial performance significantly mediated the relationship between growth option and CSP (indirect effect = 0.638, $t = 6.118$, $p < 0.001$), supporting H6c. This was the strongest mediation effect in the model, indicating that growth opportunities drive profitability, and profitability subsequently funds sustainability initiatives. The finding underscores that growth-oriented firms channel their market potential into financial success before allocating resources to ESG.

Corporate Governance Mediation (H6d). Financial performance did not mediate the relationship between corporate governance and CSP (indirect effect = -0.058 , $t = 0.784$, $p = 0.433$), rejecting H6d. This finding is theoretically significant: governance influences sustainability directly rather than through the financial performance pathway. It suggests that governance mechanisms such as board independence, audit committees, and disclosure transparency shape CSP through non-financial channels, including stakeholder legitimacy, reputational enhancement, and ethical commitment, independent of short-term profitability.

Table 12. provides a comprehensive summary of direct and indirect effects

Path	Direct Effect	Indirect Effect via FP
CG → CSP	0.386 (Supported)	-0.058 (Not Supported)
FC → CSP	-0.364 (Supported)	0.348 (Supported)
FS → CSP	-0.252 (Supported)	0.197 (Supported)
GO → CSP	-0.585 (Supported)	0.638 (Supported)
FP → CSP	0.207 (Not Supported)	-

Discussion

The finding that corporate governance positively affects corporate sustainability performance (CSP) ($\beta = 0.386$, $p < 0.001$) confirms the governance-based explanation proposed by agency theory. This result is consistent with Martínez-Ferrero and Frias-Aceituno (2015), Gartenberg et al. (2019), and Rashid and Kabir (2025), who emphasize that effective monitoring and transparency strengthen corporate responsibility. It is also supported by Rashid et al. (2026), Gartenberg and Serafeim (2023), and Sari and Muslim (2024), highlighting governance, corporate purpose, transparency, and accountability. However, this finding extends existing literature by demonstrating that governance remains influential in emerging-market manufacturing characterized by uneven ESG adoption. Theoretically, it supports agency theory and RBV, suggesting governance controls resources while directing managerial discretion toward long-term sustainability objectives.

The negative effects of financial slack ($\beta = -0.252$, $p = 0.002$), financial capacity ($\beta = -0.364$, $p = 0.010$), and growth option ($\beta = -0.585$, $p < 0.001$) challenge the conventional RBV assumption that abundant resources necessarily facilitate sustainability investment. This result differs from studies reporting positive relationships between financial resources and sustainability, including Gebru and Werkneh (2024). Nevertheless, it corresponds with the free cash flow perspective, suggesting that excess resources may increase managerial discretion and encourage short-term investment preferences. The divergence indicates that resources do not inherently possess sustainability value, their contribution depends on managerial priorities, strategic allocation, and institutional pressures. Thus, the findings refine RBV by emphasizing resource utilization and transformation rather than resource availability as determinants of sustainability performance.

The insignificant relationship between financial performance and CSP ($\beta = 0.207$, $p = 0.082$) further complicates resource-based explanations. Although profitability is commonly regarded as an important prerequisite for sustainability investment, the present evidence indicates that financial strength alone does not guarantee superior CSP (Ahfeeth et al., 2025). This finding differs from research emphasizing positive sustainability implications of stronger financial outcomes (Atz et al., 2023). However, mediation results provide a nuanced explanation: financial performance significantly mediates relationships between financial capacity, financial slack, and growth option and CSP, producing indirect effects of 0.348, 0.197, and 0.638, respectively. The resulting inconsistent mediation, characterized by negative direct effects but positive indirect effects, suggests that financial resources may initially constrain sustainability but subsequently support CSP when transformed into financial performance. The strongest mediated effect of growth option emphasizes strategic resource conversion (Wang et al., 2024).

The absence of mediation in the corporate governance pathway ($\beta = -0.058$, $p = 0.433$) further demonstrates that financial performance operates selectively rather than universally. Governance appears to influence CSP primarily through direct mechanisms involving accountability, transparency, board oversight, ethical standards, and stakeholder legitimacy (Al-Najjar et al., 2025). This finding is consistent with agency theory but differs from approaches assuming governance improves sustainability mainly through enhanced financial outcomes. Theoretically, the results establish differentiated

mechanisms within the proposed framework: RBV explains how financial resources can be transformed through financial performance, whereas agency theory explains how governance directly shapes managerial behavior and sustainability outcomes. Practically, firms should strengthen governance independently of profitability, ensuring that oversight, transparency, and accountability remain central to sustainability strategies even when financial returns are uncertain. This distinction provides important theoretical and managerial implications.

Overall, the study contributes theoretically, empirically, and contextually to corporate sustainability literature. The model explains 38.3% of CSP variance and 57.1% of financial performance variance, indicating meaningful explanatory capacity within the Indonesian manufacturing context. Theoretically, the findings demonstrate that financial resources and corporate governance operate through fundamentally different pathways, while evidence on ESG and corporate growth further supports contextualized sustainability strategies (Li et al., 2026). Empirically, the study identifies inconsistent mediation as an important mechanism explaining contradictory resource–CSP relationships. Practically, managers should prioritize governance quality while strategically converting financial resources into profitability before allocating them to ESG initiatives. For policymakers, the findings support stronger governance requirements and sustainability disclosure standards. Consequently, the study enriches emerging-market evidence concerning sustainable corporate strategy and clarifies how organizational resources can generate sustainability outcomes.

CONCLUSION

This study examined the determinants of corporate sustainability performance (CSP) in Indonesian manufacturing firms by integrating financial resource and governance perspectives using PLS-SEM. The findings show that corporate governance has a positive and significant direct effect on CSP. In contrast, financial slack, financial capacity, and growth options have significant negative direct effects, indicating that resource availability alone does not guarantee sustainability commitment. Financial performance does not directly affect CSP but significantly mediates the relationship between financial resources and CSP, demonstrating a resource transformation pathway. However, it does not mediate the governance–CSP relationship, confirming governance as an independent driver of sustainability. The model explains 38.3% of CSP variance with strong predictive relevance ($Q^2 = 0.303$). This study contributes a Financial Resource, Governance, and Sustainability framework and highlights the importance of governance strengthening and effective financial resource utilization. Future research should expand samples and apply broader measurement approaches.

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