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Corporate governance, organizational slack, and sustainability report disclosure with mediation financial performance

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Abstract:
This study aims to examine the influence of corporate governance, organizational slack on sustainability report disclosure with financial performance as a mediating variable. The samples are selected using a purposive sampling method with a final sample of 194 observations from 39 companies from property and construction sectors listed in Indonesian Stock Exchange (IDX). The hypothesis test is conducted using regression analysis.The analysis result shows that the debt to total asset ratio does not mediate the influence of corporate governance on the sustainability report disclosure. However, the ratio of debt to total asset perfectly mediates the effect of absorbed slack from organizational slack on sustainability report. Unlike previous studies, this study uses debt to total asset ratio as mediating variable, this study also add organizational slack as independent variable

Keywords: *Corporate governance, organisational slack, financial performance.*

I. INTRODUCTION

A sustainability report is a disclosure that voluntarily made by an organization, but a sustainability report holds an important role for a company. Kolk (2004) mentions that sustainability reports can improve awareness of environmental problems around the company and facilitate the implementation of an environmental strategy. Sustainability report can also improve efficiency, credibility, and information transparency for the companies' activity.

The sustainability report disclosure is also in line one of corporate governance principle namely responsibility and transparency. Responsibility defines by The National Committee of Governance Policy (Komite Nasional Kebijakan Governance, 2006) as an obligation for a company to comply with statutory regulations, such as conducting social responsibility especially to the society and environment around the company. Transparency according to Kolk (2004) refers to the company's capability to provide material information in sustainability report disclosure for the stakeholders. The implementation of good corporate governance is expected capable to encourage the disclosure of sustainability reports. However, prior study by Bartkus et al. (2002), Williams (2003), and Webb (2004) has shown there is no significant direct influence of corporate governance on activities akin to social responsibility.

Sustainability report disclosure beside empowered by good corporate governance, also affected by the resource owned by the company, for instance, organizational slack. According to Bourgeois (1981), organizational slack is the excess of resources owned by a company. Organizational slack can function as

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encouragement and facilitator for a company to disclose its sustainability report strategically and creatively. However, previous studies by Sayekti (2017), and Kim et al. (2019) actually showed no effect of organizational slack directly on the disclosure of sustainability reports.

Other previous research related to the disclosure of sustainability reports by Roberts (1992), Margolis et al. (2009), Dilling (2010), and Lin et al. (2019) indicated a positive and significant influence of financial performance on sustainability report disclosure. Margolis et al. (2009) mentions that the company will act philanthropically if the company has worked well. Lin et al. (2019) found that firm with greater financial performance would encourage social responsibility activities. Corporate governance was found to have a significant positive influence on financial performance (Müler, 2014; Johl et al., 2015; Suteja and Gunadi, 2016). Previous research also shows organizational slack has a positive influence on financial based performance (Harrison et al., 1993; Berman et al., 1999; Simerly and Li, 2000). Based on the results from preceding study concerning the effect of corporate governance and organizational slack on sustainability report, therefore financial performance as a mediating variable is added in the current study. Corporate governance is considered capable to boost performance of financial aspect through policies that benefit the company. Organizational slack can also improve financial performance by utilizing excess resources as a potential for company development. On the other side, good achievement of financial performance can improve sustainability report disclosure to inform good news of the firm to external stakeholder such as government, society, investor, and creditor. Therefore, this study aims to obtain empirical evidence on the influence of corporate governance implementation and organizational slack on sustainability reporting with a mediating variable from financial performance.

II. Theoretical Framework

Corporate governance

Stakeholder theory points out by Donaldson and Preston (1995) try to explain and guides the structure and operation of an established company. According to Donaldson and Preston (1995), there are three functions of stakeholder theory, descriptive function, instrumental function, and normative function. Based on descriptive function, the stakeholder theory explains about the description and specific behaviour of a company. The instrumental function aims to intensify the relationship of stakeholders in achieving the company objective. Normative function means that this theory is used to explain companies' functions to behave in morally or philosophically way. The role of stakeholders in the company in planning and implementing its activities manifested in a system called corporate governance.

Corporate governance defines by Organization for Economic Co-operation and Development (2015) as a unity of relationship among the management of a company, the boards, shareholders, and other stakeholders. The organization within a company holds an important role to ensure that the company can implement corporate governance effectively (KNKG, 2006). This system consists of a general meeting of shareholders, a board of directors, and a board of commissioners. To establish good corporate governance, the organization within the company should implement its assignment, function, and responsibility effectively and exclusively for the company's interest.

Organizational slack

Resource-based theory explained by Branco and Rodrigues (2006) used to connecting the internal characteristic of a company with its performance. The internal characteristic can be a resource owned by a company, both tangible and

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intangible. Grant (1991) argues that a company should understand the relationship of the resource, company's capability, and the competitive advantage they have, thus all of these aspects will direct the company to achieve its objective. One of internal characteristic is firm resources and it's excess.

Bourgeois (1981) points out organizational slack as an excess of the certain or potential resource. Nohria and Gulati (1996) define slack as a set of resources that exceeds the minimum requirement to achieve a certain level of output. According to Bourgeois and Singh (1983), there are two dimensions of organization slack, namely unabsorbed slack and absorbed slack. Excess of the most liquid resources in a company called as unabsorbed slack, while absorbed slack define as the company's capability to generate more resources.

Sustainability report disclosure

Following the normative function of stakeholder theory, the company will disclose sustainability reports as a form of stakeholder accountability within the company for the company's activities that have an impact on the environment and society around the company. The company discloses sustainability reports as well as a form of compliance with applicable regulations.

Global Reporting Initiative (2013) describes the sustainability report as a report published by an organization regarding the consequences of the company's activity on economics, social and environment aspects. The environmental aspect is related to the company's responsibility for its activity that affects the environment around the organization such as energy usage, raw material, waste, and emission management. The social aspect is related to the organization's responsibility toward human resources and the community around the organization that is affected by the organization's activity. The economics aspect is the economic performance of an organization in the present that has an impact in the future.

Financial performance

The resource-based theory explained by Grant (1991) shows that a good understanding of the resources and capabilities of the company will lead to the achievement of company goals. In this case, financial performance can act as the capability of the company, which is the financial strength or support of the company that will lead to objectives achievement. Financial performance can also play a role as a company goal achievement that can be measured using various financial ratios. Various measurements provide a signal of an organization's financial performance ratio such as leverage, profitability, liquidity, and solvability. Financial performance in this research is measured using the leverage ratio. The leverage ratio according to Weygandt et al. (2011, 675), is a ratio that shows that a company able to remain sustainable for a long time.

Hypothesis Development

Corporate governance and sustainability report disclosure

Based on the stakeholder theory from normative perspective, as stated by Donaldson and Preston (1995), corporate governance is related to the company's ability to follow the applicable norms. For instance, through the sustainability report disclosure that informs the company's responsibility toward its stakeholders such as the community and government. The components of a company within the corporate governance scope that are considered influential in the process of decision-making concerning the sustainability report disclosure are the Board of Directors, and independent commissioner. The numerous meeting held by the board of directors can increase the opinions by each member can expressed and implement. The diversity of these opinions expressed also shows that the meetings held by the board of directors are not limited to

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the profit, but also related to the implementation of responsibilities to other stakeholders. The higher the proportion of independent commissioners owned by the company, the more extensive the sustainability report disclosure made. This can happen because these members are also able to carry out their duties and supervisory functions in the company well. The more independent commissioner members than commissioners from the company also show that the company can receive aspirations related to the organization from outside and implement those aspirations properly. Previous research proved there is a positive and significant influence of the Board of Directors (Bartkus et al., 2002 and Jizi et al., 2014) and independent commissioner (Jizi et al., 2014) on sustainability report disclosure. Therefore, hypotheses are formulated as follows:

H1: Board of Directors has a significant and positive influence on the sustainability report disclosure.

H2: Independent commissioner has a significant and positive influence on the sustainability report disclosure.

Organizational slack and sustainability report disclosure

Branco and Rodrigues (2006) mentions that the resource-based theory links between the internal characteristics and its performance. Resource-based theory shows that internal characteristics in the form of excess resources that are not used will be useful if it can be managed properly. One of the utilization of excess resources by Branco and Rodrigues (2006) is by carrying out activities related to social responsibility. In this case, the excess resources in the form of unabsorbed and absorbed slack can be useful for companies such as disclosure of sustainability report activities that are outside the operational activities. Unabsorbed slack as the availability of excess resources facilitates management to manage and utilize the excess resources with the ease of use. Absorbed slack, in this case, is the potential of the excess resources. The higher absorbed slack owned by the company shows that the company has great potential and has not been utilized in its operations. So the higher the absorbed slack the company has, the wider the sustainability report disclosure because it shows the company can take advantage of these resources. Previous research by Xu et al. (2015) and Sayekti (2017) showed a positive and significant effect of unabsorbed slack also by Kim et al. (2019) that show positive and significant influence from absorbed slack on sustainability disclosure reports and activities related to social responsibility. Therefore, the next hypotheses are formulated as follows:

H3: Unabsorbed slack has a significant and positive influence on the sustainability report disclosure.

H4: Absorbed slack has a significant and positive influence on the sustainability report disclosure.

Corporate governance and financial performance

The view of stakeholder theory from instrumental perspective as explained by Donaldson and Preston (1995) can be a foundation for the stakeholder to take actions related to the general company's achievement such as growth, profit, and others. The company's internal stakeholders will positively make decision, carry out implementation until doing good supervision to achieve financial performance that can be accounted for by other stakeholders such as investors and creditors, which also give benefit to the internal stakeholder. The stakeholders of a company that is considered to have a direct effect on a company's performance are the Board of Directors and independent commissioners. The previous studies find a positive influence from the Board of Directors (Johl et al., 2015 and Suteja and Gunadi, 2016) and independent commissioners (Müler, 2014) on company financial performance. Therefore, hypotheses are formulated as follows:

H5: The Board of Directors has a significant and positive influence on financial performance.

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H6: Independent commissioner has a significant and positive influence on financial performance

Organizational slack and financial performance

Grant (1991) states that within the resource-based approach, a company should understand the link between resources, ability, and its competitive power, thus, achieving the goals. The resource-based theory also shows that the excess of resources in a company that is not used, can be used optimally if it is managed properly, which in turn will support the company's performance. In this case, organizational slack acts as a resource that can support decision making and implementation in achieving goals, while financial performance acts as an achievement that can be measured by financial ratios. Following the theory, previous research conducted by Harrison et al. (1993), Berman et al. (1999), Simerly and Li (2000), George (2005), and Xu et al. (2015) showed a significant positive influence of each organizational slack proxy, namely unabsorbed slack and absorbed slack on financial performance. Therefore, hypotheses are formulated as follows:

H7: Unabsorbed slack has a significant and positive influence on financial performance.

H8: Absorbed slack has a significant and positive influence on financial performance.

Financial performance and sustainability report disclosure

Resource-based theory underpins the company in making decisions to carry out its activities should pay attention to the resources and capabilities they have first. The financial performance serves as a company's capability that can be measured using financial ratios. A company will attempt to disclose a more comprehensive sustainability report as a form of responsibility from the internal stakeholders to the external parties related to the organization when it has high financial performance. Preceding study by Roberts (1992), Margolis et al. (2009), Dilling (2010), and Lin et al. (2019) shows there are positive influence from financial performance on sustainability reporting, thus the hypotheses are formulated as follows:

H9: Financial performance has a positive and significant influence on sustainability report disclosure

Financial performance mediates the effect of corporate governance on sustainability report

The instrumental function of stakeholder theory underpins management to make decisions until implementation within the attainment of objectives. Companies that can manage the company will be able to improve financial performance. The normative function of stakeholder theory then underpins the company to make a sustainability report after management can achieve the company's goals. With the increase in financial performance produced by the company, the company will be more likely to carry out accountability activities such as reporting sustainability reports. Mai (2017) finds that financial performance can mediate the correlation between corporate governance linked to the disclosure of social responsibility. Mai (2017) also mentions that there is no direct effect of corporate governance mechanism into the disclosure of social responsibility because the stakeholders tend to reject the funding for various social responsibility activities. Therefore, the hypothesis is formulated as follows:

H10: Financial performance has a mediating effect on the link from corporate governance into sustainability report disclosure.

Financial performance mediates the effect of organizational slack on sustainability report

Resource-based theory shows that companies that have knowledge related to the resources they have, the ability and competitive advantage in managing these resources will direct the company towards achieving its goals. Then companies that can take advantage of organizational slack following the ability and competitive advantage of

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the company will lead to the achievement of objectives, such as financial performance. In line with resource-based theory, the company also uses financial performance as a form of its resources to disclose sustainability reports. Supported by Margolis et al. (2009) that stated, companies that are able to take advantage of the excess resources they have to improve performance achievement will have an impact on their philanthropic activities. Preceding study by Roberts (1992), Margolis et al. (2009), Dilling (2010), and Lin et al. (2019) shows a significant and positive influence of financial performance on sustainability report disclosure. Therefore, financial performance is expected to mediate the effect of organizational slack on the sustainability report disclosure. The last hypothesis is formulated as follows:

H11: Financial performance has a mediating effect on the link from organizational slack into sustainability report disclosure.

III. Empirical Methodology

Population and samples

This study use companies in the property and construction sector listed in Indonesia Stock Exchange as a population. Researchers used a purposive sampling technique with the following criteria: (1) publish sustainability report and/or annual report from 2013 to 2017; (2) conducting disclosure on corporate social responsibility activities; and (3) provide complete data on the variables used in this study. The final total samples are 194 observations consist of 39 firms.

Secondary and quantitative data used to measure the variables in this study. All of the data, including the sustainability report and/or annual report, are collected from the firm's website and the Indonesia Stock Exchange's website. The instrument used to measure the disclosure in the sustainability is adopted from Global Reporting Initiative sites which include a guideline in the form of categories for data collecting.

Operational definition and measurement

Three type of variables used in this study consist of four independent variable, one dependent variable, and one mediation variable. The independent variables based on proxies from corporate governance are the Board of Directors and independent commissioner, while proxies from organizational slack are unabsorbed slack, and absorbed slack. The dependent variable is the disclosure of sustainability report. The mediating variable of financial performance is measured with leverage ratio as debt to total asset ratio. The following are the measurements for each variable.

Independent variable board of director measured by the number of meetings conducted by the board of director during a year, refer to Webb (2004) and Johl et al. (2015).

$$DIR = \sum Director\ meeting \tag{1}$$

Independent variable independent commissioner measured by the proportion of independent commissioner members divided by the total members of commissioner, refer to Williams (2003), Müler (2014), and Johl et al. (2015).

$$IND = \frac{\sum Independent\ commissioner}{\sum Board\ of\ commissioner} \tag{2}$$

Independent variable unabsorbed slack measured by natural logarithm of cash and cash equivalent, refer to George (2005) and Sayekti (2017).

$$AVS = \ln(Cash\ and\ cash\ equivalent) \tag{3}$$

Independent variable absorbed slack measured by the ratio of liability and equity, refer to Bourgeois and Singh (1983).

$$PTS = \frac{\sum Liability}{\sum Equity} \tag{4}$$

Dependent variable sustainability report disclosure measured by dummy variable for each category disclosed compared to the total category expected based on GRI 4 (54 categories), refer to Shahib and Irwandi (2016) and Mai (2017).

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$$SRD = \frac{\sum Disclosed\ category}{54} \quad (5)$$

Mediating variable financial performance measured by the ratio of total liability and total asset, refer to Weygandt et al. (2011) and Shahib and Irwandi (2016).

$$LEV = \frac{\sum Liability}{\sum Asset} \quad (6)$$

IV. Research method

The hypothesis in this study is tested using regression analysis. There are four models that can be used in this study. The first model examines the influence of proxies from corporate governance and proxies from organizational slack on sustainability report disclosure. The second model studies the influence of corporate governance proxies and proxies from organizational slack on financial performance. The third model examines the influence of financial performance on the disclosure of sustainability report. The fourth model examines the influence of corporate governance proxies and proxies from organizational slack on sustainability report disclosure with mediation of financial performance. The conceptual framework of this study can be seen on Figure 1. The formula from the four regression models are as follows:

Model 1: to examines the influence of proxies from corporate governance and proxies from organizational slack on sustainability report disclosure.

$$SRD = \alpha + \beta_1(DIR) + \beta_2(IND) + \beta_3(AVS) + \beta_4(PTS) + \varepsilon \quad (7)$$

Model 2: to examines the influence of corporate governance proxies and proxies from organizational slack on financial performance.

$$LEV = \alpha + \beta_1(DIR) + \beta_2(IND) + \beta_3(AVS) + \beta_4(PTS) + \varepsilon \quad (8)$$

Model 3: to examines the influence of financial performance measured by debt to total asset ratio on the disclosure of sustainability report.

$$SRD = \alpha + \beta_1(LEV) + \varepsilon \quad (9)$$

Model 4: to examines the influence of corporate governance proxies and proxies from organizational slack on sustainability report disclosure with mediation of financial performance.

$$SRD = \alpha + \beta_1(DIR) + \beta_2(IND) + \beta_3(AVS) + \beta_4(PTS) + \beta_5(LEV) + \varepsilon \quad (10)$$

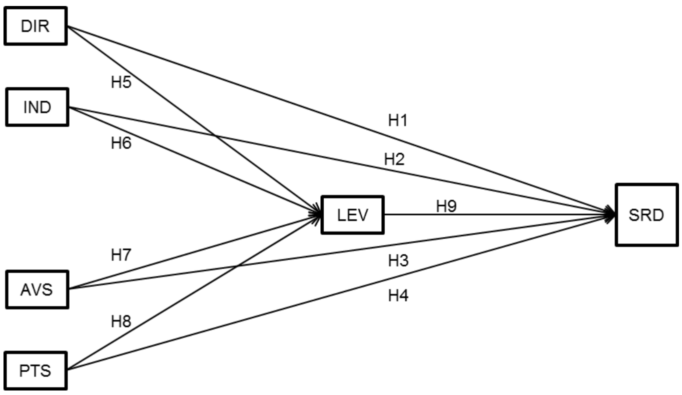

Fig. 1. Conceptual Framework.

Notes:
SRD = Sustainability Report Disclosure
α = Constant
β = Coefficient
DIR = Board of Director
IND = Independent Commissioner
AVS = Unabsorbed Slack
PTS = Absorbed Slack
LEV = Leverage
ε = Standard Error

V. Result and Discussion

This study uses SPSS as a tool to conduct regression analysis on the four models in this study. Before carrying out a regression analysis, each variable was analysed descriptive statistics to find out the maximum, minimum, average, and standard deviation of each variable. Then the classic assumption test is performed so that the results of the regression analysis do not occur biased.

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Table 1
The result of descriptive statistical test.

Variable	N	Min	Max	Mean	Std. Dev.
DIR	194	4	54	21.13	12.758
IND	194	0.200	0.833	0.390	0.098
AVS	194	20.865	30.052	26.672	1.806
PTS	194	0.347	5.278	1.068	0.947
LEV	194	0.033	0.841	0.443	0.183
SRD	194	0.074	0.556	0.191	0.099

Descriptive statistical analysis results for the board of directors' variable showed a minimum of four meetings, with a maximum of 54 meetings, an average of 21.13, and a standard deviation of 12.758. The independent commissioner variable has a minimum rate of 0.200, a maximum rate of 0.833, an average of 0.390, with a standard deviation of 0.098. The unabsorbed slack variable has a minimum score of 20.865 (Rp 1,152,557,000), a maximum score of 30.052 (Rp 11,253,778,215,000), an average score of 26.672, with a standard deviation of 1.806. The absorbed slack variable has a minimum score of 0.347, a maximum score of 5.278, an average score of 1.068, with a standard deviation of 0.947. Mediation variables of financial performance which are proxied by leverage, measured using debt to total asset ratio have a minimum rate of 0.033, a maximum rate of 0.841, an average rate of 0.443, and a standard deviation of 0.183. The dependent variable disclosure of the sustainability report has a minimum score of 0.074, a maximum score for 0.556, an average score of 0.191, and a standard deviation of 0.099.

Table 2 The result of first model testing.

Description	**Model 1 CGOS→SRD**			**VIF**	**Sig. (Glesjer)**	**Result**	**Notes**
	β	**t**	**Sig.**				
(Constant)	-0.573	-5.986	0.000				
DIR	0.004	3.514	0.001	1.229	0.682	Positive and significant influence	H1 supported
IND	-0.373	-3.285	0.001	1.021	0.202	Negative and significant influence	H2 not supported
AVS	0.017	2.346	0.020	1.171	0.180	Positive and significant influence	H3 supported
PTS	0.161	3.853	0.000	1.489	0.570	Positive and significant influence	H4 supported
F-test	11.564		0.000				
Adjusted R^2	0.247						
Normality	0.403						
Durbin-Watson	1.818						

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The first model has been testing for classical assumptions, the results show there are no problems associated with normality, autocorrelation, multi collinearity, and heteroscedasticity. Therefore, the first model can be continued for regression analysis. Based on the output of the regression analysis that tests the direct effect of corporate governance proxies and organizational slack proxies on sustainability report disclosure, there are different results as presented in Table 2. The result of the first model testing shows the Adjusted R^2 score of 24.7%. Therefore, 24.7% of the variation in sustainability report disclosure is explained by corporate governance and organizational slack. Partially, only independent commissioner that has a negative and significant influence on sustainability report disclosure. While Board of Director, unabsorbed slack, and absorbed slack shows positive and significant influence on the disclosure of sustainability report.

The positive influence of a Board of Directors shows that a Board of Directors can implement the normative function of stakeholder theory that underlie into implementing morally and philosophically of corporate responsibility. The negative influence of the independent commissioner arises because the company hires an independent commissioner only to obey the regulations. The positive and significant influence of the unabsorbed and absorbed slack indicates that the management is capable in managing the excess resources for activities that support the company's performance according to resource-based theory, in this case is disclosure of sustainability report. This also can occur because the unabsorbed and absorbed slack does fit into transferability criteria in resource-based theory expressed by Grant (1991) which means the excess resources have ease of access and transfer, to facilitate the use of these excess resources by management.

Table 3
The result of second model testing.

Description	**Model 2 CGOS→LEV**			**VIF**	**Sig. (Glesjer)**	**Result**	**Notes**
	β	**t**	**Sig.**				
(Constant)	0.313	17.612	0.000				
DIR	0.001	3.205	0.002	1.200	0.335	Positive and significant influence	H5 supported
IND	0.000	-0.024	0.981	1.021	0.787	No significant influence	H6 not supported
AVS	0.083	2.625	0.009	1.076	0.168	Positive and significant influence	H7 supported
PTS	1.066	8.814	0.000	1.137	0.423	Positive and significant influence	H8 supported
F-test	29.298		0.000				
Adjusted R^2	0.468						
Normality	0.386						
Durbin-Watson	1.826						

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The second model has been testing for classical assumptions, the results shows there are no problems associated with normality, autocorrelation, multi collinearity, and heteroscedasticity. Therefore, the model can be continued for regression analysis. The result of the second testing that tests the effect of corporate governance and organizational slack on financial performance proxied with leverage can be seen in Table 3. The result of the second testing shows a high Adjusted R^2 value of 46.8%, therefore, the 46.8% variation in the debt to total asset ratio is caused by corporate governance and organizational slack. Partially, the Board of Directors, unabsorbed slack, and absorbed slack have a positive effect on financial performance. While the independent commissioner does not affects financial performance.

The finding is matched with the instrumental perspective from the theory of stakeholder that the board of directors as stakeholders in decisions making related to the achievement of company goals will consider the benefits for stakeholders as well as the company in line with the previous studies by Johl et al. (2015) and Suteja and Gunadi (2016). No significant influence of independent commissioner indicates that an independent commissioner is in line with the result of previous model that indicates the company hires an independent commissioner only to obey the regulations. Unabsorbed slack as the most liquid excess of resources will facilitate carried out by management. This result also indicates that the company has been able to allocate the excess of its resources to reinforce the firm’s activities that improve the company's financial performance. The positive influence of the absorbed slack indicates that the firm can manage the potential of its excess resources properly. One of the uses of this potential is to enhance the performance of the firm by increasing the firm's performance of financial. This finding support the previous research previous research conducted by Harrison et al. (1993), Berman et al. (1999), Simerly and Li (2000), George (2005), and Xu et al. (2015).

Table 4
The result of third model testing.

Description	**Model 3 LEV→SRD** β	t	**Sig.**	**Sig. (Glesjer)**	**Result**	**Notes**
(Constant)	-0.289	-19.927	0.000			
LEV	0.244	4.143	0.000	0.350	Positive and significant influence	H9 supported
F-test	17.166		0.000			
Adjusted R^2	0.077					
Normality	0.095					
Durbin-Watson	2.026					

The third model has been testing for classical assumptions, the results shows there are no problems associated with normality, autocorrelation, and heteroscedasticity. Therefore, the model can be continued for regression analysis. The testing on the third model aims to

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test the influence of financial performance with leverage as a proxy on sustainability report disclosure, the output can be seen in Table 4. The result of testing shows the Adjusted R^2 value of 7.7%. This means that only 7.7% of the variations in sustainability report disclosure are caused by the variation in leverage. Leverage also shows a positive and significant influence on the disclosure of sustainability report. This findings in line with positive and significant result from previous research conducted by Roberts (1992), Margolis et al. (2009), Dilling (2010), and Lin et al. (2019). The positive effect arising from the ratio of debt to total asset means that the higher the debt to total asset ratio owned by the company, the higher the disclosure of sustainability report made by the company and vice versa. The positive influence from the ratio of debt to total asset arises because the firm can manage its potential into activities that lead to the firm's goals in this case is the disclosure of sustainability report. This report also reveals the company's good performance, as well as its responsibility, which points to assure external stakeholders that the company is in good condition, this also makes the creditor have high trust in the company to manage their funds.

Table 5
The result of fourth model testing.

Description	**Model 4 CGOS→DR→SRD** β	**t**	**Sig.**	**VIF**	**Sig. (Glesjer)**	**Result**
(Constant)	-1.183	-4.063	0.000			
DIR	0.162	2.920	0.004	1.277	0.236	Positive significant influence
IND	-0.363	-3.248	0.001	1.026	0.523	Negative significant influence
AVS	0.906	1.997	0.047	1.228	0.160	Positive significant influence
PTS	0.000	0.004	0.997	3.345	0.909	No significant influence
LEV	0.388	2.745	0.007	3.479	0.116	Positive significant influence
F-test	9.855		0.000			
Adjusted R^2	0.243					
Normality	0.296					
Durbin-Watson	2.038					

The fourth model tests the effect of corporate governance and organizational slack on sustainability report disclosure with mediation from financial performance. The fourth model has been testing for classical assumptions, the results shows there are no problems associated with normality, autocorrelation, multicollinearity, and heteroscedasticity, therefore, the fourth model can be continued for regression analysis. The result of fourth model testing can be seen in the Table 5. The result of testing shows an Adjusted R^2 value of 0.243. This means that 24.3% of the disclosure of sustainability reports can be explained by corporate governance, organizational slack, and

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financial performance as a mediating variable. Partially, only independent commissioners that have a negative influence on sustainability report disclosure. The board of directors, unabsorbed slack, and leverage ratio has a positive and significant effect on the disclosure of sustainability reports. While the absorbed slack does not affect the sustainability report disclosure.

Baron and Kenny (1986) mentions that a variable can be called a full mediator if it meets the following criteria: (1) the direct effect of the dependent variable shows significant results; (2) the effect of the dependent variable on the mediator variable shows significant results; (3) the effect of the mediator variables on the dependent variable shows significant results; (4) the effect of the independent variable when tested together with the mediator variable on the dependent variable shows that there is no significant effect. Based on these criteria, each proxy of corporate governance cannot be mediating by financial performance on its influence on the sustainability report disclosure. The results of this study indicate that both directly and through mediation of financial performance, corporate governance does not have a significant influence related to the disclosure of sustainability reports, directly only the board of directors has a strong influence. This contradicts the finding from previous the study conducted by Mai (2017) which found that financial performance will improve the disclosure of corporate social responsibility from corporate governance influence. Therefore, financial performance can fully mediate the effect of the organizational slack proxy that is unabsorbed slack on the disclosure of sustainability reports. These results indicate that better handling of excess resources owned by the company will improve the company's financial performance, with an increase in the company's financial performance it will encourage the company to prove that the company has a good performance, both in terms of financial, governance and accountability that can be realized in the sustainability report disclosure activities.

VI. Conclusion and Suggestions

This study aims to examine the influence of proxies from corporate governance and proxies from organizational slack on sustainability report disclosure with mediation of financial performance. Different results are observed after comparing the result of regression results with and without including financial performance in the analysis. The results show that all of the proxy of corporate governance, as well as the proxy of organizational slack, can directly affect the sustainability report disclosure. Proxies from corporate governance and organizational slack also show significant influence on financial performance. The results show that financial performance only mediated the effect of organizational slack on sustainability report disclosure. On the other side, financial performance can’t mediate the effect of corporate governance on the disclosure of sustainability report. This result is in line with the finding from previous studies that financial performance does not mediate the link of the independent and dependent variables of sustainability report disclosure (Shahib and Irwandi, 2016).

This study has several limitations. First, the selection of small population and samples which only includes companies in the property and construction sector listed in the Indonesia Stock Exchange, so that further study is expected to expand the population and sample. Secondly, the measurement of organizational slack is still based on the measurement in the financial report, further research can examine the firm's related human resources, such as research by Kim et al. (2019). Third, the measurement of sustainability report disclosure is limited in the category disclosed by the firm, so that further research can expand the assessment based on the items disclosed. Fourth, the measurement of sustainability report disclosure is based on GRI G4, whereas the latest

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GRI Standard concerning sustainability report disclosure has been issued. Fifth, the proxy of financial performance used is based on debt to total asset ratio and does not consider other financial performance measures such as profitability or liquidity.

VII. References

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