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DO CORPORATE GOVERNANCE, SUSTAINABILITY REPORTING, AND GENDER DIVERSITY HAVE A FINANCIAL PERFORMANCE IMPACT? EVIDENCE INDONESIA AND MALAYSIA BANK

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Abstract: Many studies state that governance and sustainability affect financial performance, and transparent disclosure is considered capable of increasing stakeholder trust in corporate responsibility towards the environment, however, some researchers assume that governance and sustainability reports do not have a positive impact on financial performance and are considered only a burden and only to comply with regulations. This study attempts to fill this gap in the literature by testing the impact of governance disclosure and sustainability reporting by adding gender diversity variables as a moderation, female directors are believed to be more critical and able to increase stakeholder trust. This study uses a panel regression model on a sample of 54 banks registered in Indonesia and Malaysia in 2022. Effective governance can overcome the agency theory and moral hazard problems that commonly occur in the banking industry, such that bank performance, as measured by Tobin's q, increases because stakeholders feel that greater disclosure of governance can have a positive effect on financial performance. Disclosure of sustainability reporting in the banking industry not only complies with regulations but also has a positive effect on financial performance. Sustainability reporting integration into core business strategies is likely to play an important role in driving long-term financial success and increasing stakeholder confidence in bank performance. Gender diversity positively moderates corporate governance practices, sustainability reporting, and, ultimately, superior financial performance. Gender diversity in the ranks of company directors is an important factor in improving corporate governance, sustainability reporting practices, and financial performance. The benefits of gender diversity extend to various organizational dimensions, underscoring its significance as a strategic asset in the contemporary corporate governance paradigm.

Keywords: Corporate Governance, Sustainability Reporting, Financial Performance, Banks

INTRODUCTION

The KPMG Survey of Sustainability Reporting 2022 revealed significant trends and developments in sustainability reporting practices among global companies. This report indicates that sustainability reporting has gained traction, with a notable increase in the number of companies that disclose sustainability information. According to the survey, 71% of the N100 companies and 80% of the G250 companies reported setting targets to reduce carbon emissions, reflecting a growing recognition of corporate responsibility towards climate goals (Jannah et al., 2023). This aligns with the broader integration of Environmental, Social, and Governance (ESG) factors into corporate strategies, as companies increasingly seek to demonstrate their commitment to sustainable development and the United Nations Sustainable Development Goals (SDGs) (Adams & Abhayawansa, 2022).

The KPMG survey highlighted the importance of assurance in enhancing the credibility of sustainability reports. The KPMG noted the assurance of 20.95% of the sustainability reports analyzed, underlining the importance of independent validation among stakeholders. The transparency of sustainability disclosure is important, as stakeholders rely on information to assess a company's performance and its responsibility towards sustainability. Effective sustainability reporting is not only limited to regulatory requirements, but also informs stakeholders of the bank's sustainability performance.

Picture 1. Report PWC Global Investor Survey 2023
Source: PWC Global Investor Survey 2023

The results revealed a broad consensus among investors regarding the importance of ESG and sustainability issues. Seventy% of the respondents agreed that ESG should be embedded directly into corporate strategy, while 75% said that sustainability-related risk management is an important factor in decision-making. Additionally, 69% of the investors reported that they would increase their investments in companies that prioritize sustainability issues relevant to business performance and prospects. This shows that sustainability is a well-established strategy for the major players in the industry.

It is also important to note that the proportion of investors who strongly agreed on ESG's importance of ESG declined from 2021 to 2023. The PWC noted that there was no strong reason for this decline in the strength of ESG, but a possible reason may be its growth as a sustainability buzzword, which results in a lack of clarity around the ESG's clear targets. The decline in investor confidence regarding the importance of ESG has substantial implications for corporate governance and strategic sustainability initiatives. Companies may face heightened expectations for transparency and accountability; hence, deficiencies in ESG strategies could affect their attractiveness to investors. A lack of clarity in ESG reporting can lead firms to reconsider how they communicate their sustainability efforts to the market. Furthermore, as indicated in a longitudinal study by Friede et al., ambiguity around ESG metrics can lead investors to question the viability of correlating ESG initiatives with financial returns (Trần et al., 2024). This may prompt firms to refine their ESG strategies to establish more transparent and measurable goals, thus ensuring that they align with broader investor expectations.

Investors' opinions also emphasized the importance of companies revealing their proposed plans and costs to meet net-zero targets. This strategy alleviates concerns about greenwashing as a defined roadmap and allocated costs showcase accountability throughout a firm. As the 2025 and 2030 targets approach, consumers and investors are looking toward transparent goals for sustainable accounting measures.

Moreover, the survey indicates that frameworks developed by global standard-setting organizations, such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), significantly influence corporate sustainability reporting practices. These frameworks provide structured guidelines that help companies report material sustainability information, thereby enhancing the comparability and transparency of sustainability disclosures across sectors (Kasanah & Wijayanti, 2024). Companies navigate the complexities of sustainability reporting, and the integration of these frameworks into their reporting processes is becoming increasingly essential for achieving legitimacy and stakeholder trust (Lodhia et al., 2023)

The relationship between sustainability reporting and financial performance has garnered significant attention in recent years as organizations increasingly recognize the importance of integrating sustainability into their business models. Various studies have produced mixed results regarding this relationship, highlighting the complexity and context-dependence of the impact of sustainability reporting on financial performance.

The diversity of women's boards can increase the company's ability to achieve better financial performance. This is because represents the interests of the different stakeholders. However, the positive impact of high gender diversity on company performance has not been widely accepted in the literature. Inconsistent empirical results and the fact that existing theories (such as resource dependence theory, human capital theory, organizational behavior, and social psychology) do not explain positive or negative performance effects. These three arguments support the positive effect of gender diversity on companies' economic performance. First, women have been proven to be different from men in several respects: women are more risk-averse than men and often propose less aggressive strategies and sustainable investment criteria. Therefore, it encourages investors and analysts (market opinion makers) to consider the existence of gender equality (gender diversity) on boards as a positive investment variable when making investment decisions and reports. The results show that economic outcomes, media visibility, and commitment to social and ethical issues lead to a higher demand for shares and increased share prices. Third, a study shows the negative influence of the number of women on company performance due to low or high representation of women, considering the low average ratio of women on the board, which is only 15.79% during the period 2015-2017, both the government and banking are expected to make arrangements so that the role of women on the board can be increased (Kusuma et al., 2018).

Research indicates that sustainability reporting can positively influence financial performance, particularly in specific sectors. For instance, Amina's study found that sustainability reporting positively affects operational, financial, and market performance in the manufacturing sector, suggesting that transparent sustainability practices can enhance a firm's overall performance (Tilakasiri & Wanninayake, 2023). Similarly, Fuadah et al. highlight that sustainability reporting can improve financial performance through enhanced stakeholder trust and engagement, ultimately leading to better financial outcomes. (Fuadah et al., 2019). This is echoed by Masila et al. (2024), who noted that corporate sustainability reporting is beneficial because it encompasses governance, environmental, and social responsibilities, which can drive financial performance and economic development.

Conversely, other studies report a negative or negligible impact of sustainability reporting on financial performance. For example, Kengatharan concluded that sustainability disclosure in Sri Lankan manufacturing companies significantly and negatively impacts financial performance, indicating that the relationship may vary by industry (Tilakasiri & Wanninayake, 2023). Additionally, Lehenchuk's research on Turkish sectors found an overwhelming lack of impact from sustainability reporting on financial performance, suggesting that the effectiveness of such reporting may depend on the specific context and sector involved (Lehenchuk et al., 2023). This complexity is further illustrated by the findings of the study conducted by Çelik, which indicated that while sustainability reporting could potentially enhance financial performance, the actual impact is contingent on various factors, including the firm's existing financial health and market conditions (Celik, 2023).

Moreover, recent studies have emphasized the role of external assurance in enhancing the credibility of sustainability reports. Dewi's research demonstrated that the relationship between sustainability performance and financial performance becomes significant when sustainability reports are externally assured, highlighting the importance of credibility in sustainability disclosures (Dewi & Widyawati, 2023). This aligns with the findings of Carvajal and Nadeem, who noted that financial material sustainability reporting is positively associated with firm performance, particularly when it meets stakeholder expectations (Carvajal & Nadeem, 2023).

THEORETICAL FRAMEWORK AND HYPOTHESES

Corporate Governance and Financial Performance

The relationship between corporate governance and financial performance in the banking sector is a critical area of research that has garnered significant attention in recent years. Corporate governance encompasses the structures and processes for decision making, accountability, control, and behavior at the top of organizations, which are essential for ensuring the integrity of financial institutions. Numerous studies have demonstrated that effective corporate governance positively influences bank financial performance, particularly in terms of profitability, risk management, and overall operational efficiency.

Strong corporate governance mechanisms improve bank financial performance. Good corporate governance positively affects bank profitability and market valuation, especially during financial crises. Similarly, Morshed et al. emphasize the importance of corporate governance in enhancing the performance of commercial banks in Bangladesh, suggesting that ownership structure and governance practices are critical determinants of banking performance (Morshed et al., 2020).

Moreover, corporate governance plays a significant role in RM. Bahoo et al. argue that effective corporate governance is essential for risk management, particularly in the context of financial crises, where governance alone may not suffice to ensure performance stability (Bahoo et al., 2019). This is echoed by Jallali and Zoghlami, who discuss how risk governance mediates the relationship between governance and performance in Islamic banks, indicating that sound risk management practices are integral to achieving better financial outcomes (Jallali & Zoghlami, 2022). In addition to risk management, the composition and effectiveness of the board of directors play an important role in shaping bank performance. This is further supported by Bhatt, who emphasizes the importance of governance structures in mediating various performance-related factors, including credit appraisal and capital adequacy (Bhatt et al., 2024). The board's ability to oversee and guide the bank's strategic direction is crucial for enhancing financial performance, as it ensures that management acts in the best interests of shareholders and other stakeholders.

The implications of corporate governance extend beyond individual banks to wider financial systems. Effective corporate governance is important not only for bank stability but also for overall economic growth and development. A strong corporate governance framework is essential to foster a resilient banking sector capable of facing economic challenges.

H_1: There is a positive influence of Corporate Governance and financial performance

Sustainability Reporting And Financial Performance

Sustainability reporting has emerged as a critical factor influencing banks' financial performance, particularly in the context of increasing stakeholder demands for transparency and accountability in environmental, social, and governance (ESG) practices. The relationship between sustainability reporting and financial performance is complex and multifaceted, with various studies highlighting both the positive and negative correlations. Research indicates that sustainable banking practices can significantly enhance a bank's financial performance by reducing risk and improving its operational efficiency. For instance, Handajani et al. argue that sustainable performance not only mitigates default risks but also contributes to systemic risk reduction, thereby positively impacting financial stability (Handajani et al., 2021). Similarly, Subedi emphasizes that green banking initiatives lead to improved banking operations and cost reductions, which are crucial for enhancing overall efficiency in the banking sector (Subedi & Bhattarai, 2024). Furthermore, Liu and Huang note that sustainable financing practices can help manage financial risks, suggesting that effective risk management is integral to achieving sustainable financial performance (Liu & Huang, 2022).

Governance structures within banks also play a vital role in determining the sustainability performance. Saha's study highlights that the attributes of CEOs, such as educational qualifications and professional experience, significantly influence sustainability outcomes (Saha et al., 2023). This aligns with the findings of Weber and Chowdury, who discuss the institutional impacts on corporate sustainability performance and its subsequent effect on financial performance (Weber & Chowdury, 2020). Thus, the integration of sustainability into corporate governance frameworks can enhance both sustainability reporting and financial outcomes.

Moreover, the impact of sustainability reporting on financial performance has been supported by various empirical studies. For example, Buallay et al. found that sustainability reporting positively correlates with banks' performance in both developed and developing countries, although they also caution that the relationship may not be universally positive (Buallay et al., 2020). In a similar vein, Al-Dhaimesh and Zobi's research indicates a statistically significant effect of sustainability disclosures on financial performance, particularly in the Jordanian banking sector (Al-Dhaimesh & Al Zobi, 2019). This finding suggests that comprehensive sustainability reporting can enhance financial resilience and stability.

However, this relationship is challenging. Some studies, such as those by Buallay et al. and Dinçer and Altinay, raise concerns about the potential trade-offs between sustainability reporting and financial performance, indicating that while sustainability practices may incur costs, they can also lead to long-term financial benefits (Buallay, et al., 2020; Dinçer & Altınay, 2020). This duality highlights the need for banks to manage their sustainability initiatives strategically to balance immediate costs with future financial gains.

H_2: There is a positive influence of sustainability report and financial performance

Gender Diversity moderated Sustainability Reporting, Corporate Governance, and Financial Performance

Gender diversity has emerged as a significant factor influencing both sustainability reporting and financial performance in corporate governance. The interplay between these elements is multifaceted, with various studies highlighting the positive impacts of gender diversity on organizational decision making, stakeholder engagement, and overall corporate performance.

Gender diversity on corporate boards of directors improves the decision-making process by incorporating diverse perspectives, leading to more comprehensive and transparent outcomes. This encourages objective decision-making, which can improve financial performance. Gender-diverse boards of directors are more effective at managing stakeholder relationships and adopting sustainability initiatives. The presence of women in leadership roles is associated with increased corporate social responsibility (CSR) practices, which in turn has a positive impact on the quality of financial reporting.

This theory states that diverse boards of directors are better positioned to balance financial and nonfinancial goals, thereby effectively addressing stakeholder concerns. Similarly, Michaelidou & Moraes (2017) Explored the endogeneity of the relationship between gender diversity and financial performance, suggesting that the impact of gender diversity is not only direct but also influenced by various contextual factors.

The mediating role of environmental performance in the relationship between gender diversity and financial performance has also been studied Yuni et al. (2023) Found that environmental performance mediates the impact of gender diversity on financial outcomes in Indonesian manufacturing companies. This suggests that companies with gender-diverse boards of directors are more likely to engage in sustainable practices, which may improve their financial performance.

Furthermore, the moderating effects of gender diversity on the relationship between corporate governance mechanisms and performance are highlighted. For instance, Vahdati et al. (2018) indicated that board diversity can significantly influence financial performance and reporting, particularly in the context of corporate social responsibility. This is echoed by Daniel-Vasconcelos et al., (2022) who demonstrate that gender diversity positively moderates the relationship between CSR committees and sustainable development goals (SDG) disclosures.

Sarhan et al., (2018) highlight that while many studies have focused on the impact of board gender diversity on corporate outcomes, they emphasize that different forms of diversity—such as ethnic, national, and gender diversity—can affect corporate performance in distinct ways. (Sarhan et al., 2018). This suggests that gender diversity is not merely a compliance issue, but a strategic asset that can enhance governance structures. Furthermore, the presence of women on boards has been linked to more ethical decision making and a greater focus on sustainability, which are increasingly important in today's corporate environment (Sarhan et al., 2018).

Moreover, the moderating role of corporate governance is crucial. Effective corporate governance mechanisms can amplify the positive effects of gender diversity on financial performance. For instance, good corporate governance practices ensure accountability and transparency, which can lead to better financial results (Chalabi & Jarraya, 2023) A study by Chalabi supports this notion, indicating that strong corporate governance frameworks significantly enhance financial performance by fostering trust and stability among stakeholders (Chalabi & Jarraya, 2023).

In addition, the integration of gender diversity within corporate governance frameworks can lead to improved risk management and innovation. Diverse boards are more likely to consider a wider range of risks and opportunities, leading to more robust strategic planning (Sarhan et al. 2018). This is particularly relevant in industries facing rapid change and uncertainty, where innovative approaches are necessary to maintain a competitive advantage.

H_3: Board gender diversity moderates the relationship between Corporate Governance and Financial Performance

H_4: Board gender diversity moderates the relationship between Sustainability Reporting and Financial Performance

Tabel 1. Summary of the Operationalization of the Dependent, Independent, and Control Variables Selected

Type of Variable	Name	Variable Definition	Hypothesis (Expected Sign)	Source of Data
Dependent	Financial Performance	Market value of equity plus total debts over book value of total assets	Tobin's Q	Financial Statement & Annual Report
Independent	Sustainable Banking Disclosure	SBD index covering Seventeen broad areas as set out by Sustainability reporting guidance on SBD: Each disclosure ranges from 0 to 3 (where 0, no disclosure; 1, general or rhetorical disclosures; 2, narrative of what has been achieved; and 3, quantitative or monetary disclosure supported by explicit assessment of performance or events). The result is divided by the value that should be scaled to a value between 0% and 100%.	CG (+)	Corporate Governance Reporting
	Sustainable Banking Disclosure	SBD index covering Seventeen broad areas as set out by Sustainability reporting guidance on SBD: Each disclosure ranges from 0 to 3 (where 0, no disclosure; 1, general or rhetorical disclosures; 2, narrative of what has been achieved; and 3, quantitative or monetary disclosure supported by explicit assessment of performance or events). The result is divided by the value that should be scaled to a value between 0% and 100%.	SBD (+)	Sustainability Reporting
	Gender Diversity	Percentage of females on the board	GD (+)	Financial Statement & Annual Report
Independent	Age	Natural log of the number of years since inception	AGE	Financial Statement & Annual Report
	Bank size	Natural logarithm of total assets of the bank	BSIZE	Financial Statement & Annual Report
	Nett Interest Margin	Natural log of the number of years since inception	NIM	Financial Statement & Annual Report
	Capital adequacy	Total Equity to Total Assets (TE / TA)	CAR	Financial Statement & Annual Report

Source: (Data processing)

RESEARCH METHODS

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We conducted an exploratory, descriptive, and inferential study to achieve our research objectives and answer these questions. The methods used included statistical correlation panel data and moderated regression analyses.

Sample and Data Collection

To obtain a sample of banks in Indonesia and Malaysia for the 2022 period, we first identified the banking populations in Indonesia and Malaysia. Furthermore, the researchers determined that all banks belonged to Indonesian and Malaysian banks (both government and private). Second, the researchers only considered bank holdings. Thus, the research sample consisted of 44 Indonesian banks, and Malaysia had 10 Malaysian banks.

Research Models and Variable Measurement

This study used five regression models to test the following hypotheses:

Tobin'Q = $\alpha_0 + \beta_1 SBD + \beta_2 CG + \beta_3 GD + \beta_4 AGE + \beta_5 BSIZE + \beta_6 NIM + \beta_7 CAR + \varepsilon it$ .... (1)

Tobin'Q = $\alpha_0 + \beta_1 SBD + \beta_2 CG + \beta_3 GD + \beta_4 SBD*GD + \beta_5 CG *GD + \beta_6 AGE + \beta_7 BSIZE + \beta_8 NIM + \beta_9 CAR + \varepsilon it$ .... (2)

Variable measurements shown in Table 1.

RESULTS AND DISCUSSION

In this study, a descriptive analysis of variables (Table 2) and a classical assumption test (Table 3) were performed. Subsequently, an independent sample t-test was conducted to compare the relationship between sustainability reporting and corporate governance with financial performance (Table 4), and an independent sample moderation regression analysis was conducted to compare the relationship between sustainability reporting and corporate governance with financial performance according to the level (percentage) of women on the board (Table 5).

Table 2. Descriptive statistics

Variables	Min	Max	Mean	Std. Deviasi
Tobin's Q	0,07	2,02	0,95	0,40
CG	0,53	1	0,85	0,10
SBD	0,07	0,9	0,40	0,40
Gender Diversity	0	0,59	0,18	0,13
AGE	1	27,70	36,87	28,57
Bank Size	17,05	127	22,53	2,20
NIM	8	27,8	4,74	4,79
CAR	-12,24	283,38	38,55	44,79

Source: Data processed, 2024

Table 2 shows the results of descriptive analysis related to corporate governance, sustainability reporting, and gender diversity on financial performance, and from 54 bank samples taken the mean Tobin's Q is 0.95 When Tobin's Q <1, a company can be classified as cheap (undervalued) because its book value is higher than its market value. This could attract interested parties to buy companies.

Corporate governance has a mean of 85%, meaning that banks disclose corporate governance by 85% of the corporate governance guidelines. Sustainability reporting has a mean of 40%, meaning that the bank discloses its sustainability reporting of 40% of the sustainability banking disclosure guidelines. Gender diversity has a mean of 13%, meaning that the bank has an average of 13% female directors from the total number of directors of women was 15%.

Classic Assumption Test

Based on Figure 1, the prob value is >0.05, which indicates that the normality requirement is met.

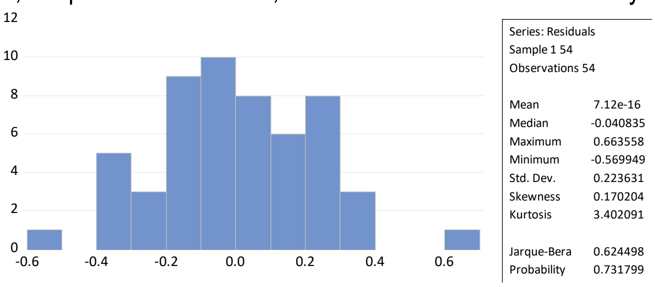

Figure 2. Normality Test Graph
Source: Output Eviews 12

Table 2 shows the results of the classical assumption tests of autocorrelation, multicollinearity, and heteroscedasticity.

Table 3. Classic Assumption Test

Variables	Multicollinearity VIF <10	Autocorrelation (Durbin Watson)-2 and +2	Heteroscedasticity Test: Harvey Prob. >0.05
CG	1.489	1.161	0.1874
SBD	2.513		
Gender Diversity	1.241		
AGE	1.4927		
Bank Size	1.833		
NIM	1.755		
CAR	4.161		

Source: Output Eviews 12

Table 2 shows that each independent variable has a VIF value of less than 10. This result indicates that the regression model was free from multicollinearity. The Durbin-Watson (DW) value is 1,161. Therefore, it can be concluded that the data do not experience autocorrelation because the DW value is in the range of -2 to +2 (-2 < DW < +2). Heteroscedasticity test: Harvey shows that the value of Prob 0.1874 > 0.05 means that it is able to predict the value of the quality of financial reports. The data do not contain heteroscedasticity.

Table 4. t-test

Variables	Coefficient	t-Statistic	Prob
CG	0.94	3.75	0.0005*
SBD	0.87	3.68	0.0006*
Gender Diversity	0.66	0.11	0.9055
AGE	0.02	0.76	0.4487
Bank Size	-1.019	-2.17	0.0347*
NIM	-0.07	-0.97	0.3363
CAR	0.08	0.91	0.3629
N	54		
Prob	0.73*		
Hervey-Test	0.1859*		
F (prob)	0.000*		
R^2	0.632		
F -Statistic	11.115*		

Notes: *Significant at the 0.05 level
Source: Output Eviews 12

From Table 4, we can conclude that corporate governance and sustainability reporting affect financial performance as measured by Tobin's Q. However, gender diversity does not affect bank financial performance.

Tabel 5. moderated regression analysis

Variables	Coefficient	t-Statistic	Prob
CG	0,311	0,67	0,50
SBD	0,97	2,62	0,01
Gender Diversity	-2,54	-1,62	0,11
CG*GD	3,15	1,77	0,08
SBD*GD	-0,42	-0,27	0,78
AGE	0,001	0,79	0,43
Bank Size	-0,02	-1,37	
NIM	-0,01	-0,64	
CAR	-0,00	-0,18	
N	54		
R^2	0,639		
F -Statistic	9,38*		

Source: Output Eviews 12

From Table 5, it can be concluded that gender diversity does not moderate the influence of corporate governance and sustainability reporting on financial performance.

Corporate Governance and Financial Performance have Positive Influences

Table 4 shows that governance has a positive relationship with financial performance. Corporate governance and economic performance in the banking sector are important research areas, especially considering the unique challenges faced by financial institutions. Corporate governance encompasses the systems, principles, and processes that direct and control a company, and its impact on financial performance has been extensively studied. This study explores how corporate governance affects banks' economic performance in various empirical studies.

Strong corporate governance is often associated with improved bank financial performance. In the study, Badran highlighted that effective banking governance can improve economic performance by minimizing asset takeovers by management and increasing customer satisfaction, which in turn attracts and retains clients, and ultimately improves financial results (Badran, 2020). Similarly, Mahmudi's systematic literature review shows that good corporate governance practices, such as board composition and CEO duality, are positively correlated with financial performance, indicating that improved governance leads to better management efficiency and financial reporting (Mahmudi et al., 2024).

Corporate governance mechanisms such as the presence of independent directors and audit committees play an important role in influencing financial performance. Although specific governance measures have an insignificant direct impact on financial performance, the overall governance framework sends positive signals to stakeholders, which can indirectly improve performance. This is in line with the findings of Kyere and Ausloos, who assert that effective corporate governance fosters an environment of trust and transparency, which are essential for safeguarding stakeholder interests and improving financial performance (Kyere & Ausloos, 2021).

The role of corporate governance in managing financial risk is particularly relevant in the banking sector. Moridu argues that good governance can indirectly reduce financial risk by improving financial performance, thereby creating a buffer against potential losses (Moridu, 2023). Effective governance mechanisms are essential to limit the agency and moral hazard problems common in the banking industry. The interaction between governance and financial performance is further illustrated by the findings of Agnihotri and Gupta, who studied public and private sector banks in India and found that corporate governance had a significant impact on banks' efficiency and their ability to manage unproductive assets (Agnihotri & Gupta, 2019).

It has a positive influence on sustainability reports and financial performance.

Table 3 Sustainability reporting and financial performance demonstrate the positive effect of sustainability disclosure on various financial metrics. Sustainability reporting, which discloses banks' environmental, social, and governance practices, is increasingly being recognized as an important tool for enhancing corporate transparency and accountability. This transparency can lead to improved financial performance by fostering trust among stakeholders including investors, customers, and regulators.

Studies have shown that sustainability reporting can improve bank financial performance through various mechanisms. For example, a study by Buallay et al. showed that sustainability reporting positively affects banks' accounting and market-based performance, especially in developed countries, supporting value creation theory. (Buallay et al., 2020)Similarly, findings by Dinçer and Altinay showed that sustainability reporting significantly affects return on assets (ROA), a key indicator of financial performance.(Dinçer & Altınay, 2020). This is reinforced by Friedrich et al., who highlighted that banks engaging in climate-related disclosures tend to experience lower levels of risk in their loan portfolios, ultimately leading to increased profitability (Friedrich et al., 2023).

Furthermore, the impact of sustainability reporting goes beyond mere compliance; it can also enhance banks' competitive advantage. For example, Özarı and Can emphasized that banks with strong sustainability practices tended to perform better financially, especially after the financial crisis. (Ellili & Nobanee, 2023; Özari & Can, 2023).

In emerging markets, a positive relationship between sustainability reporting and financial performance has also been demonstrated. Research conducted by Ellili and Nobanee highlighted that corporate social responsibility (CSR) disclosure can significantly improve financial profitability among banks in the UAE, indicating that compliance with sustainability practices is beneficial for financial outcomes. (Ellili & Nobanee, 2023). Furthermore, Adu underlines the importance of corporate governance mechanisms in moderating the relationship between sustainability initiatives and financial performance, indicating that strong governance can amplify the benefits derived from sustainability reporting. (Adu, 2022).

Evidence suggests that sustainability reporting has a strong positive effect on banks' financial performance. This relationship is supported by numerous studies across contexts, indicating that sustainability practices not only enhance transparency and stakeholder trust, but also contribute to improved financial metrics such as ROA, return on equity (ROE), and Tobin's Q. As the banking sector continues to evolve, the integration of sustainability reporting into core business strategies is likely to play a critical role in driving long-term financial success.

Gender Diversity did not Moderate the Influence of Corporate Governance And Sustainability Reporting on Financial Performance

Table 5 Gender diversity does not moderate the effects of corporate governance and sustainability reporting on financial performance. Although gender diversity is recognized in corporate governance structures, its direct impact on financial performance remains inconclusive, especially in financially distressed firms. Wang's empirical investigation in Taiwan revealed that increasing gender diversity on boards of directors did not have a positive impact on financial performance, although a higher ratio of female independent directors was associated with better performance (Wang, 2020). This suggests that, while gender diversity may not directly improve financial results, director independence plays an important role in governance effectiveness. In Indonesia, the representation of women in the ranks of banking directors remains relatively low, although there has been a gradual increase. Research shows that the average percentage of women in the ranks of directors in a sample of banks in Indonesia is around 15%, with many banks reporting one or two female directors out of a total of seven to 14 board members.

However, Malaysian banks tend to display a higher level of gender diversity on their boards of directors compared to Indonesia. The percentage of female directors in Malaysian banks has experienced gradual growth, with findings showing that women make up around 33% of the board members in the banks sampled for the research, which reflects a more progressive approach to gender diversity. This is in line with the Malaysian government's initiative, which aims to increase the representation of women in the council with a target of 30% in 2020.

Chijoke-Mgbame et al. (2020) showed that a large number of female directors can improve financial performance, suggesting that the presence of women on the board alone is insufficient; instead, their collective influence is needed for positive outcomes (Chijoke-Mgbame et al., 2020). This idea is echoed in studies that emphasize the importance of having a few female directors to foster an environment conducive to improved decision making and performance.

The findings of Mumu et al. underscore an ongoing debate in the literature, as they highlight that despite corporate governance reforms aimed at increasing gender diversity, the actual impact on financial performance is still debated (Mumu et al., 2022; Sarhan et al., n.d.). This is further supported by the work of Sarhan et al., who show that while board diversity is often associated with better governance, its direct correlation with financial performance is not consistently observed across contexts (Sarhan et al.,2018). The relationship between gender diversity and financial performance is not always positive. Several studies have shown that the presence of women on boards does not always lead to better decision making and performance, and the impact may not be as significant as anticipated. Several studies have raised questions about the effectiveness of gender diversity in improving driving performance.

Romano et al.'s (2020) study revealed that CEO duality negatively moderates the relationship between board gender diversity and performance dissatisfaction, suggesting that the forces that satisfaction may limit the effectiveness of diverse boards in driving desired initiatives (Romano et al., 2020). This complexity underscores the need for a nuanced understanding of how different governance structures interact with gender diversity to influence financial transmissions and performance. The direct effect of gender diversity on financial performance is less clear, and may be influenced by multiple factors. The interactions between these elements require further investigation to fully understand the application of gender diversity in corporate governance, particularly in the banking sector. Al-Jaifi's study, which suggests that female directors may not always advocate for social and environmental issues, questions the assumption of the benefits of gender diversity in governance (Al-Jaifi, 2020). While substantial evidence supports the idea that gender diversity can improve bank performance, particularly in terms of ESG metrics, the relationship is complex and influenced by multiple contextual factors. Critical mass theory states that a certain level of female representation is necessary to bring about change, and the interaction between gender diversity and other governance mechanisms plays a critical role in determining the overall performance outcomes. The relationship between gender diversity and financial performance does not moderate the effects of corporate governance and sustainability reporting. The presence of female boards does not always result in the right decisions or improve financial performance, and the effects may not be as significant as those prevented. Gender diversity may not always advocate social and environmental factors as well as the benefits of gender diversity in governance. Although substantial evidence supports the idea that gender diversity can improve bank performance, especially in terms of ESG metrics, this relationship is complex and influenced by many contextual factors. Thus, the effect of gender diversity is not directly visible in the moderation of governance and sustainability reporting on improving financial performance.

CONCLUSION

Based on the analysis and testing results, the following conclusions can be drawn from the 54 banks registered in Indonesia and Malaysia in 2022. Effective governance can overcome the agency theory and moral hazard problems that commonly occur in the banking industry, such that bank performance, as measured by Tobin's q, increases because stakeholders feel that greater disclosure of governance can have a positive effect on financial performance. Disclosure of sustainability reporting in the banking industry not only complies with regulations but also has a positive effect on financial performance. Sustainability reporting integration into core business strategies is likely to play an important role in driving long-term financial success and increasing stakeholder confidence in bank performance. Gender diversity positively moderates corporate governance practices, sustainability reporting, and, ultimately, superior financial performance. Gender diversity in the ranks of company directors is an important factor in improving corporate governance, sustainability reporting practices, and financial performance. The benefits of gender diversity extend to various organizational dimensions, underscoring its significance as a strategic asset in the contemporary corporate governance paradigm.

The limitations of the sample in this research are that it only takes a sample of conventional banks and domestic banks from Indonesia and Malaysia, the observation period is only the year 2022, and the results of this research only apply to the banking sector in Indonesia and Malaysia. Therefore, generalizing the findings to other sectors or countries with different characteristics should be performed with caution.

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