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Green Reputation in Mediating Implementation of Sustainable Development Goals (SDGs) On Company Financial Performance

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ABSTRACT

Purpose: This study aims to examine the mediating role of green reputation in the relationship between the implementation of Sustainable Development Goals (SDGs) and corporate financial performance.
Methodology: Research data processing using SEM-PLS Analysis. Data sourced from financial reports and sustainability reports published by the company, and ESG score data released by the IDX in collaboration with Morningstar Sustainalytics.
Finding: The research findings found that although the implementation of SDGs does not have a direct impact on financial performance, there is a significant influence of the implementation of SDGs on green reputation, and green reputation has a significant influence on the company's financial performance, so that green reputation becomes a mediator between the implementation of SDGs on the company's financial performance.
Implication: The theoretical implications of this study support signaling theory, where green reputation acts as a positive signal to stakeholders regarding a company's commitment to sustainability. In terms of policy, these results encourage companies to not only adopt SDGs, but also proactively build and strengthen their green reputation to maximize the positive impact on the company's financial performance.
Originality: This study offers an approach for companies in understanding how capital structure, capital intensity, and profitability interact in the context of tax management.
Keywords: SDGs, Green Reputation; ESG Score, Financial Performance.

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1. Introduction

Sustainability has emerged as a critical concern in the corporate sector. The Sustainable Development Goals (SDGs) are a global framework developed by the United Nations (UN) in 2015 to address worldwide issues such as poverty, inequality, climate change, environmental degradation, and social disparity (United Nations Department of Global Communications, 2023). Several studies have shown that implementing SDGs has a significant impact on companies. SDGs can be a guide for companies in designing business strategies that prioritize sustainability (Lichtenthaler, 2022), whereby considering the By integrating the economic, environmental, and social dimensions of business, the adoption of sustainability can mitigate risks, enhance efficiency, and generate corporate value (Chindasombatcharoen et al., 2022).

Various companies have taken essential steps in disclosing the implementation of SDGs. However, companies are also faced with operational and financial obstacles in achieving SDG

goals and reputational risks if they are considered to be practicing greenwashing (Emma & Jennifer, 2021). Although awareness of SDGs is increasing among companies, a deeper understanding of how SDG implementation affects company performance (Erin et al., 2022; Girón et al., 2021).

Several studies have shown that sustainability performance disclosure positively affects company profitability by increasing operational efficiency and reducing environmental risks (Galeazzo et al., 2024; Magon et al., 2018). However, several other studies have failed to find a significant relationship between SDG implementation and disclosure and company performance, especially in the short term (Ramos et al., 2022; Tyan et al., 2024). This study highlights the inconsistent results, concluding that additional research is necessary to comprehend the impact of sustainability implementation on the performance of public companies.

In the existing literature, green reputation is considered as one of the results of implementing sustainability practices (Gomez-Trujillo, 2020). A green reputation is a positive perception formed in the eyes of the public, customers, and other stakeholders towards a company due to implementing sustainability practices that focus on efforts to protect the environment (Dao, 2011). A green reputation is formed when a company demonstrates a strong commitment to environmental sustainability through various actions such as resource efficiency, carbon emission reduction, recycling, and initiatives to reduce environmental damage (Dangelico & Pujari, 2010). This study introduces originality by investigating the role of green reputation as a mediator in the relationship between sustainability and corporate financial performance.

In an increasingly competitive business environment and increasing awareness of environmental issues, reputation as an ecologically responsible company is one of the crucial factors influencing the decisions of stakeholders, namely investors, creditors, and consumers (Cheng, 2014; Cowan & Guzman, 2020).

Signaling theory is the main foundation used in this study to understand how the implementation of sustainability by companies can affect financial performance. According to this theory, companies send signals to stakeholders (investors, consumers, regulators) through their actions, including adopting sustainability practices. When companies implement environmental and social initiatives, they send a positive signal that they are socially and environmentally responsible organizations. This signal provides investor confidence that the company can manage risks better and has long-term prospects in maintaining the sustainability of the company (Papoutsi & Sodhi, 2020). The positive signal sent by implementing sustainability is vital in building stakeholder trust, including consumer loyalty, which is critical to the company's financial performance (Lee et al., 2022).

A company's green reputation can be considered a form of the signal stakeholders receive from the sustainability practices implemented (Lee et al., 2022). In this context, signaling theory explains that green reputation results from signals companies send through sustainable practices. With the increasing awareness of sustainable development, investors tend to invest more in environmental reputations. The company's real contribution to sustainability also creates a competitive advantage in the market related to customer loyalty and the company's stock valuation in the eyes of investors (Cheng, 2014). A green reputation is expected to be a positive signal of the company's sustainability steps, thus strengthening its impact on the company's financial performance.

This study aims to identify the implementation of SDGs for corporate green reputation and financial performance. Adopting a signaling theory framework, the research aims to offer valuable insights into corporate governance practices that emphasize sustainability as a core principle. The findings of this study are also expected to enrich existing empirical evidence and become a basis for further research in the field of green accounting for public companies.

Literature Review and Hypotheses

Implementing SDGs means integrating sustainable development goals into business strategies, operations, and corporate social responsibility (Girón et al., 2021). The implementation can be in concrete actions, such as reducing carbon emissions, sustainable use of resources, and community empowerment programs (Emma & Jennifer, 2021). SDG reporting is carried out to ensure transparency and accountability of companies for their contributions to achieving these goals, using reporting standards such as the Global Reporting Initiative (GRI) or or Integrated

Reporting (IR), which make this reporting relevant and measurable (Turzo et al., 2022). Financial performance is the company's ability to generate profits from operations, investments, and other business activities. Some examples of financial performance measurements include profitability, liquidity, and operational efficiency (Schrettle et al., 2014). Implementing SDGs can strengthen the company's financial performance by improving its reputation, reducing operational risk, and increasing efficiency. Research by Friede, et al., (2015) conveyed that implementing SDGs enhances the company's good image in the eyes of consumers and investors. Implementing SDGs can also attract investments in environmental, social, and governance (ESG) (Saeidi, 2015).

H1: The implementation of SDGs affects the company's financial performance.

Reputation enhancement is one of the main reasons companies implement SDGsc(Cowan & Guzman, 2020). Gomez-Trujillo (2020) emphasized that sustainable initiatives using SDGs lead to improved reputation; therefore, to maintain this reputation, companies must treat SDGs as mandatory for their operations.

By implementing SDGs, companies demonstrate their commitment to reducing negative environmental impacts, adopting environmentally friendly operational practices, and contributing to global goals such as climate change mitigation and carbon footprint reduction (Kazemikhasragh et al., 2021). By demonstrating a real commitment to these goals, companies are expected to increase positive public and stakeholder perceptions of their contributions to sustainability, preventing negative corporate reputations towards the environment (van Zanten & van Tulder, 2021).

Companies must convey and report the implementation of SDGs openly and transparently. Several studies have provided findings that confirm the positive influence between sustainability-based operational practices and corporate reputation (Mozas-Moral et al., 2021; Muhmad & Muhamad, 2021). These practices and actions towards the environment increase public trust in the company and encourage stronger positive perceptions, especially from stakeholders who care about environmental and sustainability issues (Bissoondoyal-Bheenick et al., 2023). Based on the previous studies mentioned above, we propose that:

H2: SDGs implementation affects the green reputation

Rosamartina et al. (2022) suggests that a strong reputation reflects a company’s promising growth potential and enhances its prospects, which can drive higher profits with lower investment costs. A A positive reputation can offer strategic benefits, such as smoother operational processes and enhanced overall business performance (Sánchez & Morales, 2018).

Corporate reputation serves as a critical competitive advantage for companies (Chiou, 2011). Studies indicate a significant correlation between corporate reputation and green reputation. A strong green reputation improves a company's overall reputation. In other words, a solid green reputation positively impacts corporate reputation, contributing to improved business performance (Rahayu et al., 2022).

Companies that excel in ESG criteria tend to gain financial benefits, such as increased consumer loyalty, better operational efficiency, and lower cost of (Afum et al., 2020). Xi, et al., (2022) study shows that companies with good ESG scores often enjoy more stable financial performance because they are better protected from reputational risks and market volatility caused by environmental or social issues.

H3: green reputation affects financial performance.

When companies implement sustainable initiatives that support SDGs goals, such as reducing carbon emissions and better waste management, the company's green reputation in the eyes of the public will increase (Rahayu et al., 2022). This reputation is important for companies to gain greater trust from stakeholders, including consumers and investors who care about sustainability. In this case, a green reputation is a means for companies to transform their SDGs commitments into wider market appeal and positive acceptance in the eyes of stakeholders (Ardiana, 2023).

Companies with a high green reputation achieve better financial performance thanks to recognition from more loyal consumers and investors who are willing to allocate capital based on sustainability assessments (Calabrese et al., 2021). Through a green reputation, companies can convert sustainability values implemented through SDGs into long-term financial benefits (Chiou,

2011; Lee et al., 2022). This reputation plays a role as a bridge connecting sustainability initiatives with optimal financial results, strengthening the positive impact of SDG implementation on financial performance.

H4: Green reputation mediates the effect of SDGs implementation on financial performance.

2. Methodology

This study uses inferential statistical tests with SEM-PLS analysis to test direct and indirect effects simultaneously in one model (Hair et al., 2010). With SEM-PLS, researchers can separate and measure the mediating effect of green reputation more comprehensively, resulting in a more in-depth analysis of the role of these variables in mediating the relationship between sustainability disclosure and financial performance. One of the advantages of SEM-PLS is that it does not require the assumption of a normal distribution of the data, making it ideal for use on data with a high probability of not being normally distributed, such as secondary data in this study. In addition, SEM-PLS works well with smaller sample sizes than the covariance-based SEM method (CB-SEM), making it suitable for studies with limited sample sizes (Hair et al., 2021). The data in the study are secondary data sourced from financial report data and Sustainability reports published by the company. For ESG (Environmental, Social, Governance) score data released by Bank Indonesia in collaboration with Morningstar Sustainalytics in 2024, there were ESG value reports from 80 Indonesian public companies. Hence, the population and sample in this study were 80 companies in the Indonesia Stock Exchange Sustainalytics report. In this study, companies use the Global Reporting Initiative (GRI) and Integrated Reporting (IR) to measure the Implementation and Reporting of SDGs-based Sustainability Performance. The GRI framework has specific indicators that can be directly linked to the SDGs, allowing companies to report their contributions to sustainability goals (Papoutsi & Sodhi, 2020). Environmental indicators in the GRI include energy use (GRI 302) and waste management (GRI 306), which are in line with SDG 7 (Affordable and Clean Energy) and SDG 12 (Responsible Consumption and Production). By reporting per GRI standards, companies can provide empirical evidence of the positive impacts of their sustainability policies.

Integrated Reporting (IR) is a reporting approach that integrates a company's financial and non-financial information into one comprehensive report, thus providing a more complete picture of the value generated by the company in the short, medium, and long term. IR emphasizes the concept of value creation through six capitals: financial, manufacturing, intellectual, human, social, and environmental. IR emphasizes value creation through six capitals: financial, manufacturing, intellectual, human, social, and ecological (Revaldo & Tan, 2024).

In this study, financial performance is measured by return on assets (ROA) and return on equity (ROE). Effective implementation of sustainability policies can increase ROA by lowering operational costs and risks, thus having a positive impact on the company's financial performance (Ramos et al., 2022). ROE is relevant in this study because investors tend to be more interested in companies that can manage environmental and social risks, thus generating greater shareholder returns (Eccles et al., 2014). This study's green reputation measurement uses the ESG (Environmental, Social, Governance) score. The ESG score is an indicator that measures a company's reputation in terms of sustainable practices in terms of environment, social, and governance. The Indonesia Stock Exchange collaborates with Morningstar Sustainalytics to conduct ESG assessments. Sustainalytics conducts ESG risk assessments using the concept of risk decomposition, where Sustainalytics controversy research identifies companies involved in incidents that can harm stakeholders, the environment, or the company's operations. The higher the ESG score, the more severe the company's impacts on the environment and society. The company is identical to having serious business risks and a high frequency of incidents. A high ESG score also indicates that the company has poor controversy management. Meanwhile, the lower the ESG Sustainalytics score can be interpreted as the lower the company's risk to the environment and society, the lower the frequency of incidents, and the company has a good management system to mitigate risk.

Figure 1 illustrates the conceptual framework of the relationship between variables, along with indicators of all variables studied in this study.

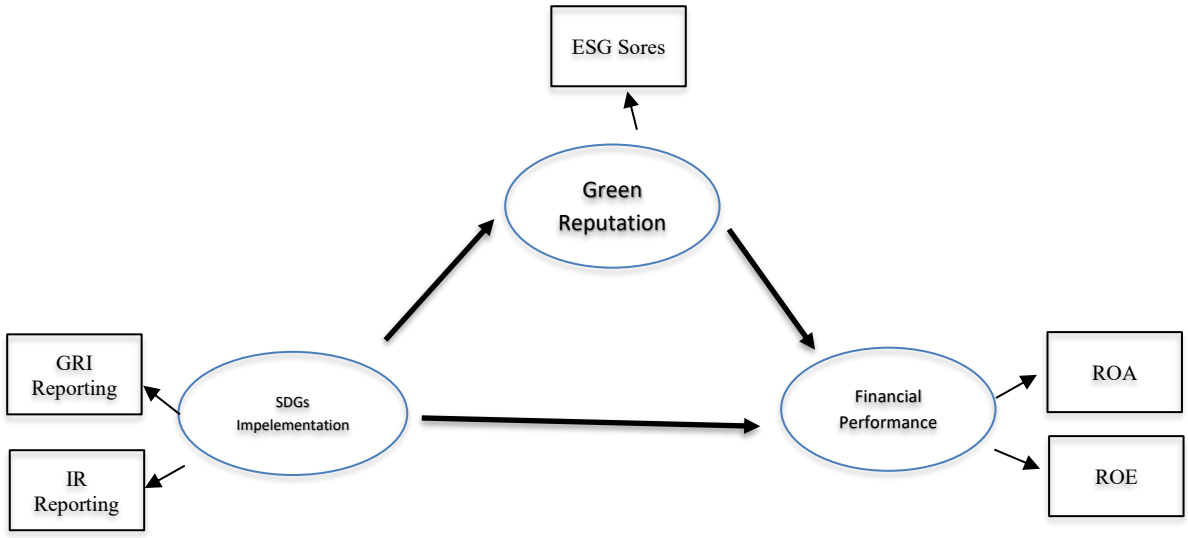


Figure 1. Research conceptual framework

3. Results and Discussion

Table 1 illustrates the descriptive statistics of the four research variables, namely SDGs Implementation (with GRI and IR Reporting indicators), Financial Performance (with ROA and ROE indicators), and Green Reputation (with ESG Score indicators). Overall, these variables show quite large variations. The average GRI reporting is 0.184, with a standard deviation of 0.117, indicating moderate variation. Meanwhile, IR reporting has a higher average (0.928) but a larger standard deviation (0.557). In financial performance, the ROA indicator averages 0.030 with a standard deviation of 0.070, indicating significant fluctuations in return on assets.
In contrast, ROE has a slightly higher average (0.083) but with a much larger standard deviation (0.228), indicating that return on equity varies greatly between companies. This shows that companies have very diverse financial performance, especially in terms of profitability of equity capital. As measured by ESG Score, Green Reputation has a mean of 28,081 and a standard deviation of 9,706, indicating that while some companies are very prominent in sustainability and financial performance, some companies have very lagging scores, creating significant differences across the sample of companies.

Table 1. Descriptive Statistics of Research Data

Variables	Indicators	Min	Max	Average	Standard Deviation
SDGs Implementation	GRI Reporting	0.04	0.912	0.184	0.117
	IR Reporting	0.81	0.982	0.928	0.557
Financial Performance	ROA	-0.144	0.169	0.030	0.070
	ROE	-0.033	1.528	0.083	0.228
Green Reputation	ESG Scores	9.26	53.01	28.081	9.706

Source: SEM-PLS Output

Table 2 presents the results of evaluating the outer model of the study, where the measurement model or outer model is assessed to assess the reliability and validity of the indicators forming the latent variables (Hair et al., 2021). Based on Table 2, all indicators have a loading factor value above 0.6, thus meeting the requirements in SEM-PLS. GRI Reporting has the highest loading factor (0.905), while the ESG Score has the lowest (0.621). Furthermore, the Discriminant Validity Value measures the extent to which indicators can distinguish latent variables from each other. All discriminant validity values are above the threshold value of 0.7, indicating that each construct has adequate uniqueness. Composite Reliability assessment is used to measure the internal consistency of the construct. Values above 0.7 indicate good reliability.

Table 2. Outer model measurement results

Variables	Indicators	Loading Factor	Discriminant Validity	*Composite Reliability*
SDGs Implementation	GRI Reporting	0.905	0.791	0.864
	IR Reporting	0.807	0.718	0.984
Financial Performance	ROA	0.823	0.716	0.711
	ROE	0.923	0.842	0.872
Green Reputation	ESG Scores	0.621	0.797	0.718

Source: SEM-PLS Output

Inner Model Measurement in this research using R-square observation, where R-square (R2) means the diversity of exogenous constructs simultaneously) (Hair et al., 2010). The results of evaluating the structural model (inner model) in this study show that the R-square value for each dependent variable in the model is above 45%, so the model formed is good enough to explain the influence between variables.

Table 3. Inner Model Measurement Results

Endogen Variables	R Square
Financial Performance	0.534
Green Reputation	0.487

Source: SEM-PLS Output

Table 4 summarizes the hypothesis test in the research study. The test results show that the implementation of SDGs has no significant effect on the company's financial performance (p-value 0.414). The relationship between SDGs Implementation and Green Reputation has a negative coefficient of -0.165 with a p-value of 0.000. This hypothesis is accepted because the p-value is smaller than 0.05, indicating that implementation of SDGs significantly affects the company's green reputation. Green Reputation significantly negatively affects financial performance (p-value 0.011). The negative value of the green reputation coefficient is because green reputation is measured by the ESG-Sustainalytics score, where a high ESG score indicates a higher risk to the environment for the company, or in other words, the lower the company's green reputation, and vice versa. The indirect effect hypothesis shows that green reputation mediates SDGs Implementation and financial performance (P-value 0.047).

Table 4. Hypothesis Testing Results

Variable Relationship	Coefficient	p-value	Decisions
SDGs Implementation → Financial Performance	0.024	0.414	Rejected
SDGs Implementation → Green Reputation	-0.165	0.000	Accepted
Green Reputation → Financial Performance	-0.245	0.011	Accepted
SDGs Implementation → Green Reputation → Financial Performance	-0.055	0.047	Accepted

Source: SEM-PLS Output

The results of the first hypothesis test (Table 4) found that implementing SDGs had no significant effect on the company's financial performance. The nature of SDGs implementation is more oriented towards long-term impacts (Tyan et al., 2024). SDGs implementation requires significant investment that can burden the company's finances, especially in the early stages. The decision to adopt more sustainable production practices requires enormous capital costs (Afum et al., 2020). Although such implementation can lead to cost savings and increased efficiency in the long term, in the short term, high costs can reduce the company's profit margin or even not provide results on the company's performance (Ramos et al., 2022).

GRI reporting is a framework for reporting a company's environmental, social, and economic impacts. Meanwhile, IR presents more comprehensive information about how the company creates value in the short, medium, and long term by integrating financial and non-financial aspects (Meiryani et al., 2024; Selpiyanti & Fakhroni, 2020). Both types of reporting are used to

measure the company's commitment to the SDGs. SDGs focus more on creating non-financial value, such as improving reputation and environmental risk management, where the returns from implementing SDGs are not directly reflected in traditional financial performance metrics such as ROA or ROE (Eccles et al., 2014).

The second hypothesis test found that implementing SDGs affects green reputation. When companies actively report progress in achieving SDGs through the GRI framework, it will increase the perception that the company is environmentally and socially responsible, which are the main components in the Environmental assessment of the ESG score. A negative coefficient on the influence of a good ESG score reflects a robust green reputation, where the company is considered proactive in minimizing environmental impacts and supporting long-term sustainability. Therefore, transparent GRI reporting on SDGs implementation improves the company's green reputation, as assessed through the ESG score (Friede et al., 2015). Reporting through IR helps improve the company's green reputation by demonstrating the company's strategic commitment to sustainability. IR reporting is essential for social and governance assessment in ESG scores because IR shows how companies contribute to social welfare and good governance to achieve environmental goals. When stakeholders see that sustainability is not just an additional obligation but is at the core of a company's business model, positive perceptions of the company increase, which significantly improves the company's ESG score and green reputation (Cowan & Guzman, 2020).

From Table 4, the third hypothesis of the green reputation study has a significant effect on the company's financial performance. Companies with good ESG scores have implemented environmentally friendly technologies and more efficient resource management practices (Galeazzo et al., 2024). Green reputation, including the credibility of green brands, positively affects consumer purchasing behavior and increases company revenue (Akturan, 2020). In other words, companies with a solid green reputation can attract more customers who care about sustainability, positively impacting revenue. The better the company's ESG score, the better the optimistic signal investors receive (Galeazzo et al., 2024). Related to the fact that investors are increasingly considering ESG factors in their investment decision-making, such reputation can drive capital flows to companies with good ESG reputation scores.

The test results found that green reputation mediates the effect of SDGs Implementation on financial performance (Table 4). Green reputation plays an essential mediator between implementing Sustainable Development Goals (SDGs) and the company's financial performance. When a company successfully implements SDGs, especially in environmental aspects such as reducing emissions and more efficient resource management, the company's green reputation is proven to increase (Rosamartina et al., 2022). The public, consumers, and investors increasingly appreciate companies contributing to sustainability. The appreciation can be seen from the increasing preference for environmentally friendly products and services and the interest of investors who focus on the principles of Environmental, Social, and Governance (ESG) (Cheng, 2014). With a better green reputation, companies can attract more loyal consumers and sustainability-oriented investors, thus having a positive impact on the company's financial performance.

This finding shows that although the implementation of SDGs does not directly improve financial performance, the green reputation resulting from these efforts can significantly affect financial performance. This study's results align with several previous studies that found that SDG implementation does not always impact financial performance, especially in the short term (Cai & Choi, 2020; Eccles et al., 2014) . Green reputation serves as a link that clarifies a company's commitment to sustainability, making the company more competitive in an increasingly environmentally conscious market (Akturan, 2020; Lee et al., 2022). In the context of signaling, SDG implementation does not directly impact financial performance because stakeholders may not have sufficient information about how effective the implementation is in creating economic value. However, a green reputation acts as a strong signal to consumers, investors, and business partners about the company's commitment to sustainability and social responsibility (Papoutsi & Sodhi, 2020). Companies that succeed in building a green reputation signal to the market that they operate responsibly and care about the environment, which is an added value in the eyes of consumers and investors.

4. Conclusion

This study found that although the implementation of SDGs does not significantly influence the company's financial performance, the implementation of SDGs has been proven to indirectly affect financial performance with a green reputation as a link. This result confirms the signaling theory that the key to implementing SDGs is the reputation that the company gets, including a green reputation, which provides added value to the company in the eyes of consumers, investors, and business partners about the company's commitment to sustainability.

From a policy aspect, this study offers a concrete solution that companies should adopt SDGs and proactively build and strengthen green reputation to maximize the positive impact on financial performance. Companies need to adopt policies that explicitly integrate the implementation of SDGs with sustainability communication strategies. The implementation of sustainability, accompanied by signals to stakeholders regarding proactivity, aims to increase the company's competitiveness in a market increasingly concerned about sustainability.

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