The Effect of Corporate Financial Performance on Market Value Moderated by Sustainable Development and Good Corporate Governance

Aimen Ali R Mjahid
University of Brawijaya, Veteran Street, Malang City, East Java, Indonesia.
E-mail: amien.ub.jp@gmail.com

Eko Ganis Sukoharsono
University of Brawijaya, Veteran Street, Malang City, East Java, Indonesia.

Djumillah Hadiwidjojo
University of Brawijaya, Veteran Street, Malang City, East Java, Indonesia.

Armanu
University of Brawijaya, Veteran Street, Malang City, East Java, Indonesia.

Received June 28, 2021; Accepted November 08, 2021
ISSN: 1735-188X
DOI: 10.14704/WEB/V19I1/WEB19004

Abstract

This research aims to analyze the impact of corporate financial performance on the market value moderated by good corporate governance and sustainability development in Great Britain companies listed in London stock exchange. This research tests the causal relationships among variables including corporate financial performance; market value moderated by good corporate governance and sustainable development in UK companies listed in London stock exchange. Findings of this research are (1) Profit is reflection of the success in implementing the activities and operations of the company. (2) The result presented the current practice of good corporate governance in London stock exchange, showed that most of the companies concerning the implementation of good corporate governance principles, which include: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance. Originality of this research is the Impact of CFP on firm market value has been documented in literature. Ideally, CFP on market value should be correlated, but studies on CFP and market value have yielded mixed results positive, negative and neutral impact. This research can benefit to the companies with their existing policy modifications as per requirements in the present of United Kingdom financial environment.

Keywords

Good Corporate Governance, Sustainable Development, Corporate Financial Performance, Market Value.

Introduction

According to Renneboog et al., 2008, the growth of individual awareness of social and environmental ethical issues is very influential on consumer purchasing decisions in the market. The investment strategy consists of choosing stocks based on ethical, social and environmental displays. Change occurs in society, which includes changes in aspects of behavior and the business environment with new trends and concepts developed in which companies must react if they want to be successful. An internationalization process also plays a role in creating higher value for stakeholders. In the global business environment, there are various opinions that suggest a change in approach to good corporate governance and to control and manage companies with effective performance and accountability and appropriate social responsibility (Tricker, 2009).

Nowadays, business operations face a variety of changes both internal and external problems. Therefore, it makes more cooperation among government, non-governmental and industries organizations to avoid the problems of no accountability, as recommended which comprised of 4 elements: (1) Good corporate governance which is one of the mechanisms that is an important part in the process of the firm to be structuring and control the operations of the business to be more productive. In addition, its performance can generate returns and wealth for the shareholders and stakeholders. Firm have responsibilities to act with transparency; (2) sustainability development reflects the current state of affairs for the company's stakeholders to use the information to regulators to analyzes the rise of social, environmental factors and evaluate the performance of the firm (KPMG, 2013). Nevertheless, the reporting responsibilities of firms in each country are also a voluntary manner; (3) The results of operations of the firm have to focus on the best interests of shareholders and on the wealth to the corporate sustainability; and (4) financial reporting standards are important in order to ensure the practice of accounting and establish the accuracy of the books of accounts of companies to the same standard and recognition of the financial statements to the general public. The great point is that what information a firm should report and how companies should report. The most important is the firm should procedure the best process and has to report and pose the greatest value to its shareholders and stakeholders (KPMG, 2013).

Tricker (2009) found that various research scholars defined corporate governance dimension in different manner. Historically, corporate governance norms are being summarized in the form of codes and guidelines in different countries (Bhagat and Bolton, 2008). Therefore, while doing research on corporate governance, researchers like Aldin et al. (2014) stressed on corporate governance codes. In general terms, corporate governance codes are important due to 5 reasons: 1. Implementation of good corporate codes ensure equal participation of shareholders in annual general meeting (AGM) irrespective of size of their stake; 2. Implementation of good corporate governance codes help companies to meet interest of shareholders in efficient manner; 3. Through implementation of robust corporate governance codes, responsibility of each board members is being clearly understood; 4. Corporate governance codes establish environment of ethical behavior across the company that limits the scope of committing financial frauds by corporate officers; and 5. Good corporate governance codes help companies to present fair image among financial investors, due to trust factors, mentioned companies would easily convince these financial investors to invest (Ammann et al., 2011). Due to such benefits of implementation of corporate governance codes, Ammann et al. (2011) pointed out that effective corporate governance can be achieved through right integration corporate code.

Moreover, as per many studies, the value of intangible assets contributes to a major part of the discrepancy that exist between the firm value in the market measured by the market capitalization of the company and CFP as per the company accounting records (Lev & Daum, 2004).

There are many previous studies that have addressed the effects of Corporate Financial Performance on the firm market value in the past. But this study specifically targets the impact of the CFP on firm market value of the listed companies in United Kingdom. In addition to that, the study also uses some specific parameters such as sustainability report, good corporate governance report of the selected companies during a specified time period as new model to study the extent of the impact CFP has on firm value becomes stronger with increasing value of the share for the investors of the company (Chen et al., 2005).

There are three main components of the value creation efficiency and they are structural capital, human capital market and physical capital. This study attempts to take a fresh look at the importance of market value creation efficiency. Market value creation efficiency cannot be underestimated as they are one of the vital aspects of the business strategy of the company. This is because, the efficiency of the value creation of an organization also plays a vital part in the decisions to investor (Chen et al., 2005). The quality of the value creation of any organization is the largest and vital aspect of its present and future success in any kind of the economy. So, it becomes a vital part of the study regarding the relationship of the CFP and the firm value in the market.

The Impact of CFP on firm market value has been documented in literature. Ideally, CFP on market value must be tightened, but researches in CFP and market value has produced various negative impacts, positive and neutral. One study concluded that the positive, negative and neutral effects were due to a flawed empirical analysis. Therefore, this study aims to charge the blanks by checking the effect of CFP on firm market value of registered company in United Kingdom.

The researcher looks to find a new model that will incorporate those parameters for the study of this topic that will incorporate all the necessary elements that are required for the comprehensive study (Chen et al., 2005). The research aims at analyzing the impact of corporate financial performance on the market value moderated by good corporate governance and sustainability development in Great Britain companies listed in London stock exchange.

As mentioned in previous sections, the listed companies are facing two grave issues when they are making business strategy to increase their market share. One threat is the internal as well as external competition from global companies. The second issue relates to the government rules and regulations. Due to this, the impact of CFP on the firm market value makes a lot of difference and offers lot of benefits to the Great Britain companies listed in London stock exchange.

Further, the impact and relationship of CFP and firms market value is very important for the country's economy. The benefits of the research can spread over to the future of the country. An in-depth study of this issue can benefit the companies with their existing policy modifications as per requirements in the present of United Kingdom financial environment. This study will also enable company authorities as well as the government in formulating new policies to cope up with the increasing volatility of domestic and global financial markets.

This research aims to analyze the impact of corporate financial performance on the market value moderated by good corporate governance and sustainability development in Great Britain companies listed in London stock exchange. This research tests the causal relationships among variables including corporate financial performance; market value moderated by good corporate governance and sustainable development in UK companies listed in London stock exchange.

Theoretical Framework

A theoretical framework is a collection of interrelated concepts, like a theory but not necessarily so well worked-out. A theoretical framework guide your research, determining what things you will measure, and what statical relationship you will look for. A conceptual framework for as a result of this disentangle the relation between variables that are going to be examined.

The primary goal of this research is to test and evaluate the moderating or supporting role of good corporate governance alone and sustainable developments in determining the relationship between financial performance corporate and market value of the companies listed in London stock exchange. Through this, the hypotheses there is a positive relationship between the two core variables and market values will be accepted or rejected (Fernandes & Solimun, 2017; Solimun et al., 2017).

Therefore, the logical pattern of judging this trend is to define the correlation and the effect of corporate financial performance on the market value moderating by corporate governance and sustainable development. This will objectively help to assess and review the hypotheses in light of actual facts processed in an empirical study.

Corporate Financial performance and market value. Based on Chen et al. (2005) under the title of empirical study of the relationship between intellectual capital on a company's market value and financial performance. However, further research is needed on the role of intellectual capital (IC) in developing countries, because different technological advances in developing regions may have different ICs and the implications of market value for intellectual capital in creating corporate value and improving financial performance (Chen et al., 2005). Research conducted by Sardo and Serrasqueiro (2017) also found that the impact of IC components on a company's MV may be indirect. Structural capital positively affects the company's FP in the long run. Also, the results reveal that ownership concentration and owner management involvement limit the firm's IC performance.

Corporate financial Performance and Good Corporate Governance. This examine extends the literature via way of means of seeing at the connection among precise company governance and company economic overall performance. According to Karamanou and Vafeas (2005) reporting evidence that a powerful audit committee shape is associated with better quality economic arrangements, however isn't always without delay associated with agency overall performance. According to Yunyan (2020), it is identified that agency overall performance may be stepped forward via way of means of precise company governance. In Bhagat and Bolton (2008), a quantity of latest research at the evaluation of the connection among agency overall performance and company governance do now no longer offer proof that better agency overall performance is inspired via way of means of an impartial board.

Good Corporate Governance and Market value. Gompers et al. (2003) supplied a governance index to investigate the connection among company governance and market value. Starting from the definition of a Governance Index primarily based totally on information accrued from the Investor Responsibility Research Center (IRRC) they analyzed 1500 American indexed companies from 1990 to 1999. The index, that mixed 24governance provisions, became constructed in such a manner that a growth within side the index caused a deterioration of investor's rights. They determined that company governance became strongly correlated with inventory returns for the duration of the1990s: an funding approach that bought stocks withinside the lowest-G companies ("Democracy" companies with robust shareholder rights), and offered stocks within side the highest-G companies ("Dictatorship" companies with susceptible shareholder rights), earned unusual returns of 8.5 percentage in keeping with year. Moreover, they pointed out how a growth withinside the governance index.

Corporate Financial Performance and Sustainable Development. There are fifty-one research of CSR and corporate overall performance relationships which have been reviewed through Riffin and Mahon (1997). Found as many as eighty kinds of overall performance measures had been used. A degree of business enterprise overall performance this is frequently used. These encompass go back on assets (ROA), business enterprise size, age of assets, go back on income and go back on equity. According to McGuire et al. (1988), ROA is continually claimed as an proper degree of business enterprise overall performance. ROA isn't always encouraged through the differential stage of leverage that exists withinside the business enterprise. A better ROA shows a better cost for shareholders additionally manner that ROA is positively correlated with inventory prices.

Sustainable Development and Market Value. According to Research Communication via Responsibility Reporting and Its Effect on Company Value in Finland contributed by Schadewitz and Niskala (2010). In addition, they analyze the market valuations of registered Finlandia companies via a conventional assessment model integrated with accountability commentary. This study analyzes the liability commentary reference with an oppression on the relationship between responsibility commentary and performance company marking. There is positive relationship between sustainable development and market value. Though many definitions of moderation in the previous research (Holmbeck,

1997) to identify inconsistence thermology, assumption sustainability development as moderator variable that strengthen the impact of independent variable which is corporate performance on dependent variable which is market value.

Design/Method

The type of this research is explanatory causal research. Explanatory causal research explains the causal relationships among variables through hypothesis testing (Hair et al., 1998). Thus, we can say the research also includes the type of research of causality, since in this study aimed to identify the causal relationships between variables that one with other variables. This research tests the causal relationships among variables including corporate financial performance; market value moderated by good corporate governance and sustainable development in UK companies listed in London stock exchange.

This study's objectives are to describe financial and the context and practice of non-financial reporting in the United Kingdom. The sample used in this study comes from annual sustainability reports that are published and are independent of the top 100 companies listed on the London stock exchange were analyzed. Gamble et al. (1995) state that in the history of each voluntary reporting, the sample is considered to be at a different stage. We obtain 367 Financial Times Stock Exchange (FTSE) 100 index revision events on 2012, 2013 and 2014. We drop from our sample stocks that were added (deleted) due to events such as spin offs, mergers and takeovers. The sample was chosen based on the market capitalization of public companies taken from the top registered British companies listed in London Stock Exchange based on FTSE 100 population as at 31 December 2012 which have annual report and sustainability report or equivalent. While the other 74 companies they do not have sustainability report or equivalent or they are not British companies.

The data related is obtained from different reputable and reliable sources, including company websites, London Stock Exchange, Morningstar and Ychart which include closing price, market capitalization, Price to Book value, Price Earning (PE), dividend yield (DY), Return on Equity (ROE), return on assets (ROA) and return on Investment (ROI), number of trades and the number of shares outstanding. According to Malhotra and Birks (2007:215), the unit of analysis is the company as well as other parties who respond to treatment or research actions carried out in the research. In one study, the unit of analysis is required to determine researchers can determine and define the problem of the study. Therefore, researchers should be able to determine whether the unit of analysis used in these studies is an individual, group, couples, corporations, or culture. Organization is the unit analysis of this study. The coding instrument comes from G3.1 Guidelines and OECD corporate governance principles. Each category data is recorded in G3.1 reporting as a list of individual indicators, definitions and further explanation.

Analysis result using WarpPLS analysis (Partial Least Square) because the variables examined is the latent variable is a variable material (Latent Variable, Unobservable Variable, Construct) that is observed in the real world. Thus, a variable which is not measured directly but it is formed through the many observed dimensions. In this research, there are three kinds of variables included dependent, independent and moderating variables. The independent variable in this research is corporate financial performance. Dependent variable in the research is market value. And too moderating variables meanly good corporate governance and sustainable development. Variable that cannot be measured directly is the latent variable, but it can be represented by one ore more variables (Hair et al., 2010; Solimun and Fernandes, 2017). The observed, measured, or indicators are a set of variables that we use to define the variables as well as the latent variables or construct (Lomax & Schumacker, 2004). To limit the problem in this research, operational definitions need to be made for each of variables examine. The operational definition is use to determine and measure the variables with formulating briefly and clearly so as not to give rise to defenses of interpretation. The operational definition of each of these variables is as follows:

Table 1 Variable Operational Definition

Variable	Operational Definitions	Indicators	Source
Corporate Financial Performance	Financial Performance can be defined as an objective measureshow well the company generates revenue and uses assets fromits main business mode.	1. Return on assets (ROA) 2. Return on Investment (ROI)	Combs et al., 2005; Hult et al., 2008.
Market Value	the amount of utility and benefits derived from the shares of a firm by the shareholders.	1. dividend yield 2. price earning 3. Price to bookvalue	Bhagat and Jefferis, 2002; Gomper, Ishii and Metric, 2003;
Good Corporate Governance	Good corporategovernance as a concept is a blend of laws, rules and regulations as well as voluntary and appropriatepractices		Shu et al., 2011.
Sustainable Development	Enhancement monitoring a policing company by a criticalpublic in demands for more ethical behavior caused by adirect response to changes insociety.	1. Social 2. Economy 3. Environment	Flynn & Brown, 2008; GRI guidelines, 2011.

Result and Discussion

The result of the process is presented in Table 2. Therefore, the evidence demonstrates that all goodness-of-fit measures (APC, ARS, AARS, AVIF, AFVIF, GoF, SPR, RSCR, SSR and NLBCDR) could fulfil the threshold. Hence, the structural model fits to the data well. Furthermore, the structural model produces the path coefficient (3) that reflects the magnitude of relationship among constructs. The result demonstrates that the model average coefficients statistically significant ((3= 0.282 and p-value= 0.003). In addition, R squared lies between the values of 0 and 1 (Campbell et al., 1997). The Average R-squared value is 0.404 at p-value P<0.001. Thus, in our case, the Average value of R squared is fit the model and fulfil the threshold. Hence, all goodness-of-fit measures of the model fits to the data well.

Table 2 Goodness of Fit Model

No	Quality indices and Model fit	Fit Criteria	Result
1	Average path coefficient (APC)	P < 0.05	0.282, P = 0.003
2	Average R-squared (ARS)	P < 0.05	0.404, P<0.001
3	Average adjusted R-squared (AARS)	P < 0.05	0.736, P<0.001
4	Average block VIF (AVIF)	Acceptable if <= 5, ideally <= 3.3	1.502
5	Average full collinearity VIF (AFVIF)	Acceptable if <= 5, ideally <= 3.3	1.228
6	Tenenhaus GoF (GoF)	Small >= 0.1, medium >= 0.25, large >= 0.36	0.466
7	Sympson's paradox ratio (SPR)	Acceptable if >= 0.7, ideally = 1	1
8	R-squared contribution ratio (RSCR)	Acceptable if >= 0.9, ideally = 1	1
9	Statistical suppression ratio (SSR)	Acceptable if >= 0.7	1
10	Nonlinear bivariate causality direction ratio (NLBCDR)	Acceptable if >= 0.7	1

Table 3 Measurement Model

Indicator	Loading	p-value	Notes
Corporate Financial Performance			
ROA	0.93***	<0.001	
ROI	0.60***	<0.001	
ROE	0.97***	<0.001	The strongest
Market Value			
PBV	0.72***	<0.001	
DY	0.72***	<0.001	
God Corporate Governance			
RSH	0.37***	<0.001	The strongest
ESH	0.34***	0.001	
RST	0.32***	0.002	
DT	0.15*	0.103	
RB	0.34***	0.001	
Sustainable Development Report			
EC	0.36***	<0.001	
EN	0.42***	<0.001	The strongest
SO	0.39***	<0.001	

Notes: *** = *highly significant* (α = 0 01)

Table 3 show the measurement model for this research, shows the ROA factor loading =0.93. Furthermore, ROE loading at 0.60 and ROI =0.97. Besides that, the p-value of all the indicators of CFP (ROA, ROI and ROE) are <0.001. The strongest and highly significant indicator is ROE at Loading of 0.97 and P-value <0.001. The result indicates that ROA, ROE, and ROI can reach the criteria of loading which means the three indicators of the variable CFP reached the convergent of validity. The result in Table 3 shows the loading value for PBV and DY at 0.72 with P value <0.001. Based on the evidence, PBV and DY indicators of the variable MV reached the convergent of validity.

The weight of Good Corporate Governance indicators shows by the current table 3. Rights of Shareholders (RSH) weight at 0.37, Equitable Treatment of Shareholders (ESH) weight at 0.34, Role of Stakeholders (RST) weight at 0.32, and Responsibilities of the Board (RB) weight at 0.34, all the previous indicators show that the P-value < 0.05. Except that, Transparency and Disclosure (DT) weight at 0.15 and the P-value= 0.103. The results indicate that all the indicators can reach the criteria of weight except Transparency and Disclosure does not meet the criteria of the model. Furthermore, RSH is the strongest and the highly significant indicator.

Sustainable development report (SDR) indicators weight has been shown in Table 3. The indicators weight sequentially Economic (EC) have at 0.36, Environment (EN) at 0.42 and social at 0.39 while the P-value of all the indicators less than 0.001. The initial value of Environment (EN) indicator exerts a highly significant at weight of 0.42 and (α = 0.01). Hence, the results indicate that all the indicators can reach the criteria of the model.

Hypothesis testing are used to test the model, namely the influence of exogenous variables on endogenous variables. In the model, the relationships of the constructs proposed in this study generate the coefficients of paths (Indarti et al., 2017). Based on the coefficient, hypotheses of this study could be examined.

Table 4 Hypothesis Testing

No	Dependent Variable	Independent Variable	Path Coeficient	p-value	Notes
1	MV	CFP	0.062ns	0.301	
2	Dependent Variable	Moderation	Path Coeficient	p-value	
3	MV	CFP*GCG	0.229**	0.022	Moderation
4	MV	CFP*SDR	-0.558***	<0.001	Moderation

Notes: *** = highly significant (a = 0.01)

** = significant (a = 0.05)

ns = not significant

Impact of Corporate Financial Performance on Market Value. Hypothesis 1 states that "Corporate Financial Performance has a fine effect on Market Value". The result suggests that the connection among company monetary overall performance to market place cost standardized coefficient 13 = 0.062 and p-cost = 0.301. Due to p-cost of the coefficient greater than 0.05 as a now no longer widespread degree, it way that direct effect of company monetary overall performance insignificant to marketplace cost. Since this look at implemented the widespread degree of 0.05 and p-cost of the testis greater, this speculation is rejected.

If there's susceptible courting or inconsistent among predictor variables and criteria, Baron and Kenny (1986) outline a moderator because the Z variable which impacts the path or power of the courting among the impartial variable (X) and the based variable(Y). Moderator variables is generally used if there's inconsistent or an abruptly susceptible courting among predictor variables and criteria.

This research examined the proposed hypothesis among UK companies listed in London Stock Exchange, measuring their intention to implement Good corporate governance and sustainable development report, found that the direct impact of corporate financial performance on market value not significant in the integrated model.

The result of the direct impact demonstrates that the value of $\beta = 0.062$ and p-value = 0.301. Since this study applied the significant level of 0.05 and p-value of the test is greater, this hypothesis is rejected based on direct impact. The result show that the probability of an asset, investment and equity experiencing a permanent loss of value. Specifically, the result of financial performance is below of the expectation of the shareholders. A high risk investment is one where there is either a large percentage under performance, or a relatively small chance of a loss value.

Research on moderation from Sharma et al. (1981) shows that researchist must differentiate between moderator variables that affect the shape and strength of the predictor variable because the effects of moderation are different and require analytical methods for judgement. According to (Baron & Kenny, 1986), moderator variables are defined as variables that systematically modify the strength or shape of the relationship between the independent variable and the dependent variable. Strength moderators are also called homogenizer variables that affect the degrees of the relationship between predictor variables Y and X. According to Sharma et al. (1981), minimize the error term and increasing the number of variants described while the moderator of the shape affects the slope of the regression line.

A company's resource-based view holds that companies had a collection of capabilities and resources in their exile. Grant (1991) states that resources consist of intangible, human resources and tangible. Capability refers to a company mobilizes the resources to have a competitive advantage toward the competitors. Wernerfelt (1984) claimed that availability of resources affects competitive advantage. According to (Day & Wensley, 1988) resources that can provide a company's competitive advantage over competitors are Investments in R&D. According to Koc and Ceylan (2007), to create sustainable competitive advantage and lead to improved organizational performance using effective distribution of available resources.

The results of various previous studies have not produced any difference in terms of financial performance towards market value relationships. Previous studies have only focused on direct relationships or using various types of moderation. However, this study combined insights from two moderator variables to recognize between the various types of moderating effects and to conclude the good corporate governance and sustainable development have an impact on the relationship between corporate financial performance and market value of the company.

Moderating Impact of Good Corporate Governance. Hypothesis 2 posits that Good Corporate Governance mild the connection among Corporate Financial Performance and Market Value. The end result of the moderating effect demonstrates that the fee of f3 = 0.229 and p-fee = 0.022. It indicates that this speculation is strongly supported.

What is tested on this look at is the effect of company monetary overall performance on marketplace fee is moderated with the aid of using true company governance on agencies indexed at the London Stock Exchange. The standards of company governance are measured with the aid of using a rating card. This score card become constructed to degree the OECD Principles in Corporate Governance: fair remedy of shareholders, shareholder rights, transparency and disclosure, the position of stakeholders in board company governance and responsibilities.

Theory of stakeholder said, there may be a wide spread dating among the software of business enterprise overall performance and true company governance. The evaluation end result indicates the high-quality effect of imposing company governance. The end result suggests that the software of company governance standards in registered agencies can impact the market place-primarily based totally and accounting company degree. The outcomes of the regression guide speculation two. These outcomes are according with the findings of Cheung et al. (2011) formerly which confirmed that company governance had a high quality effect on fee and the overall performance of indexed agencies. This means that true company governance practices can expect destiny overall performance in publicly indexed agencies, as established with the aid of using the expanded software of company governance standards in public agencies at the London Stock Exchange.

Taking under consideration the United Kingdom Corporate Governance Code and OECD standards of company governance. The software of company governance standards may be progressed in agencies indexed at the London Stock Exchange. The outcomes may be defined with the aid of using the truth that developing economies recognition on constructing investor self-assurance to draw overseas investment and places which could increase trade (Abhayawansa & Johnson, 2007). Therefore, the implication of this locating is that agencies indexed at the London Stock Exchange practice company governance standards to offer a basis for protective the pursuits of all stakeholders and decreasing the possibility of struggle among stakeholders and control.

According to (Sengur, 2011), the software of company governance standards allows powerful monitoring, help agencies to draw investment, improve price range with low capital costs, produce long-time period outcomes. time period monetary fee and enhance business enterprise overall performance. Current outcomes suggest that pleasant company governance practices are constructing clear relationships among stakeholders and control, and taking into consideration the pursuits and needs of all stakeholders, accordingly main to longer business. The outcomes display that the OECD Principle could be very crucial as a fixed of strategic and control tools which could growth marketplace fee.

Therefore, this study evaluates corporate governance in the UK and develops a model based on OECD Corporate Governance Principles that apply to OECD countries. The model proposed by this research includes the rights of shareholders, the role of stakeholders in corporate governance, the fair treatment of shareholders, the responsibilities of the board and disclosure and transparency. The model in this study is simple, practical, and easy to implement and can be a monitor to improve good corporate governance practices in the United Kingdom and other countries.

Moderating Impact of sustainable development. Hypothesis 3 conveys that Sustainable Development Report moderate the relationship between Corporate Financial Performance and Market Value has 13 = -0.558 and p-value <0.001. The value of 13 is also negative. Thus, this hypothesis is supported.

One of our concerns is the impact of corporate financial performance on market value, accounting based actions have an indirect impact, we focus on the study of sustainable development reports to investigate whether sustainable development increases or decreases market value.

Analysis shows that the impact of corporate financial performance on market value and moderated by sustainable development has not positive impact. The result of the moderating impact demonstrates that the value of $\beta = -0.56$ and p-value less than 0.001. This suggests that interaction of corporate financial performance to sustainable development has significant and negative effect on market value, thus hypothesis 3 is rejected. This means that sustainable development had no significant impact to strengthen or moderate the impact of corporate financial performance on market value.

Previous research from Chiu & Sharfman (2009) has studied the positive and negative dimensions of sustainable development. This literature shows that positive sustainable development actions such as sustainable practices, commitment-based labor practices, corporate philanthropy and effective relations with local communities are not on the same continuum as avoiding negative sustainable development actions such as violations of community or environmental regulatory guidelines.

When companies perform well, they are more likely to invest in sustainable development. When the company is considered to be doing well, the independent director or concentrated owner may not feel the need for close monitoring; and place greater trust in manager's judgment, giving them greater freedom in decision making (Waddock & Graves, 1997). If the company is deemed not doing well, managers may not have much freedom of decision making even under relatively weak governance conditions.

Effective governance must always limit negative sustainable development, while determining the level of positive sustainable development based on a cost-benefit analysis. In addition, they show that effective governance must also reduce positive sustainable development. When a company has abundant resources and its actual performance exceeds aspirations, managers will have significant policy power, from a coalition perspective, even under strong governance conditions. However, when the reverse is true, freedom of decision making for managers will be far more limited and may be driven by short-term concerns for cost cutting in reaction to weak performance.

If the actual performance is better than the expected performance, the results of achieving positive profits; and if lower, negative profit achievement occurs. In the case of achieving positive earnings, shareholders must place greater trust in managers and allow them to have higher discretion in resource allocation. However, in the case of achieving negative earnings, managerial policy may be limited (Bromiley, 1991). Because shareholders lack trust in managerial decision making and are more likely to pressure them to achieve shareholder goals. For example, if a company wants a 10% return on assets and an actual profit of 12%, shareholders will be more willing to allow managers to invest a portion of the higher income for sustainable development than if the actual profit. changed to 5%, where shareholders might want to reduce the allocation of sustainable development to a minimum.

In summary, the impact of governance and sustainable development on firm value equal to high slack and high profit achievement must allow managers to perform at a high level of positive sustainable development, by reducing their need to be involved in negative things sustainable development. Firms which have both strong corporate governance and high satisfaction with firm performance, the managerial tendency to get involved in positive sustainable development restrictions on building effective governance. Moreover, the implications for negative sustainable development, the combination of governance and resource factors must reduce negative sustainable development. The combination of ineffective governance and the situation of weak resources can lead to increased negative sustainable development.

Implication of Study: Theoretical Implication. The main support of this research is the investigation of the intangible impact on tangible assets in the UK. This research will help fill large gaps in the literature on tangible and intangible assets in the UK. This research has assisted to development integrated models that can fill gaps in the literature of tangible and intangible assets in the European region and especially in the UK. This model is based on GRI guidelines and OECD Principles. Whereas the special contribution of this study is how the stakeholder model fits into tangible intangible assets. Therefore, this provides useful insights for academics regarding the need to implement good corporate governance and sustainable development.

Practical Implication. Specifically, this research focuses on companies listed on the London stock exchange, because it investigates the indirect impact of a company's financial performance on market value. In addition to being one of the few studies conducted with a unique business environment, this research gives shareholders and other stakeholders the knowledge of how good corporate governance and sustainable development increases or decreases market value.

Limitation. There are limitations in this study. The first is that the sample used only consisted of 26 companies. Some companies publish sustainability reports. This company report is in the form of a CSR report. For the coming year, the number of companies that issue sustainability reports can increase along with increasing stakeholder demand and environmental stewardship. The more companies, the more samples, the more representative, the better the results. Second, the time frame of research is short and the observation is only three years from 2012-2014. In building brand loyalty and winning the company in the long run the struggle for corporate sustainability must be positively correlated with maximizing the long-term shareholder wealth.

Conclusion and Recommendation

Based on the analysis result above, the conclusion of this research are (1) Profit is a reflection of the success in implementing the activities and operations of the company. The activities of the company affect the market value to be gained by the company. A market value is growth in accordance with the development of the economy. With high financial performance and market value, survival and development of the company can be better. One of the ways that can be used in judging the financial performance growth is by analyzing the financial and non-financial reports of the company. (2) The result presented the current practice of good corporate governance in London stock exchange, showed that most of the companies regarding the application of the principles of good corporate governance such as fair treatment of shareholders, shareholder rights, disclosure and transparency, the role of stakeholders in corporate governance, and the responsibilities of the board of directors.

Drawn from the above research are some of the recommendations that could enhance market value of the companies. Adopting financial strategies through strategic financial planning is the most efficient way for the organization to ensure that money spent wisely and achieve shareholders expectations. The strategies to be integrated should be based upon a good corporate governance philosophy which will aim to control the risk and maximize the market value. Effective implementation of financial strategy with responsibility accounting in place will give birth to performance for sustainable growth. When there is sustainability of performance and growth, stability will manifest in the organization. The impact of corporate financial performance on market value show that good corporate governance as a moderator was a key of financial strategy Tools. Therefore, the primary objective of good corporate governance is to contribute to improved corporate performance. Thus, there is a need for increasing transparency and disclosure in its relationship with other stakeholders. The new concept of transparency putting more responsibilities on the corporation not only let the truth be available to the public but imposes to disclose it to every stakeholder and different stakeholder groups. An alibi for a company to be held responsible for its ethical duties, outside of arguments or other benefits, whether material or reputable. A company must be the result of the reflection of its owners and managers on its relationships with stakeholders.

Acknowledgment

I would like to thank all those who have played a role in carrying out the research, as well as all those who have been involved in the preparation of this paper.

References

Abhayawansa, S., & Johnson, R. (2007). *Corporate Governance Reforms in Developing Countries: Accountability versus Performance, in R Johnson* (ed.). Reading in Auditing, Australia: John Wiley & Sons, Ltd., Milton, Qld, *2*, 84-98.

Aldin, H., Malkawi, A., Pillai, R., & Bhatti, M.I. (2014). Corporate governance practices in emerging markets: The case of GCC countries. *Economic Modelling*, *38*, 133-141.

Ammann, M., Oesch, D., & Schmid, M.M. (2011). Corporate governance and firm value: International evidence. *Journal of Empirical Finance, 18*(1), 36-55.

Baron, R.M., & Kenny, D.A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology, 51*(6), 1173-1182.

Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of corporate finance, 14*(3), 257-273.

Bhagat, S., & Jefferis, R. (2002). *The Econometrics of Corporate Governance.*

Bromiley, P. (1991). Testing a causal model of corporate risk taking and performance. *Academy of Management journal, 34*(1), 37-59.

Campbell, J.Y., Champbell, J.J., Campbell, J.W., Lo, A.W., & Mac Kinlay, A.C. (1997). *The econometrics of financial markets*. Princeton University press.

Chen, M.C., Cheng, S.J., & Hwang, Y. (2005). An empirical investigation of the relationship between intellectual capital and firms' market value and financial performance. *Journal of intellectual capital, 6*(2), 159-176.

Chiu, S.C., & Sharfman, M. (2011). Legitimacy, visibility, and the antecedents of corporate social performance: An investigation of the instrumental perspective. *Journal of Management*, *37*(6), 1558-1585.

Day, G.S., & Wensley, R. (1988). Assessing advantage: a framework for diagnosing competitive superiority. *Journal of marketing, 52*(2), 1-20.

Fernandes, A.A.R. (2017). Moderating effects orientation and innovation strategy on the effect of uncertainty on the performance of business environment. *International Journal of Law and Management*, *59*(6), 81-95.

Flynn, P. M., & Brown, B.S. (2008). Co-occurring disorders in substance abuse treatment: Issues and prospects. *Journal of Substance Abuse Treatment, 34*(1), 36-47.

Gamble, G.O., Hsu, K., Kite, D., & Radtke, R.R. (1995). Environmental disclosures in annual reports and 10Ks: An examination. *Accounting Horizons, 9*(3), 34–54.

Gompers, P., Ishii, J., & Metrick, A. (2003). Corporate governance and equity prices. *The quarterly journal of economics, 118*(1), 107-156.

Grant, R.M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California management review, 33*(3), 114-135.

Hair, J.F., Anderson, R.E., Tatham, R.L., & William, C. (1998). *Multivariate data analysis*, *5*, 87-135.

Hair, J.F., Black, W.C., Babin, B.J., & Anderson, R.E. (2010). *Multivariate Data Analysis.* New Jersey: Pearson Prentice Hall.

Holmbeck, G.N. (1997). Toward terminological, conceptual, and statistical clarity in the study of mediators and moderators: Examples from the child-clinical and pediatric psychology literatures. *Journal of Consulting and Clinical Psychology, 65*, 599-610.

Hult, G.T.M., Ketchen, D.J., Griffith, D.A., Chabowski, B.R., Hamman, M.K., Dykes, B.J., & Cavusgil, S.T. (2008). An assessment of the measurement of performance in international business research. *Journal of International Business Studies, 39*(6), 1064-1080.

Indarti, S., Solimun, Fernandes, A.A.R., & Hakim, W. (2017). The effect of OCB in relationship between personality, organizational commitment and job satisfaction on performance. *Journal of Management Development, 36*(10), 1283-1293.

Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: An empirical analysis. *Journal of Accounting Research, 43*, 453-486.

Koc, T., & Ceylan, C. (2007). Factors impacting the innovative capacity in large-scale companies. *Technovation, 27*(3), 105-114.

KPMG, I. (2013). The KPMG survey of corporate responsibility reporting 2013. *KPMG International Zurich, Switzerland*.

Lev, B., & Daum, J.H. (2004). The dominance of intangible assets: consequences for enterprise management and corporate reporting. *Measuring business excellence, 8*(1), 6-17.

Lomax, R.G., & Schumacker, R.E. (2004). *A beginner's guide to structural equation modeling*. Psychology press.

Malhotra, N., & Birks, D. (2007). *Marketing Research: an applied approach: 3rd European Edition*. Pearson education.

McGuire, J.B., Sundgren, A., & Schneeweis, T. (1988). Corporate social responsibility and firm financial performance. *Academy of management Journal, 31*(4), 854-872.

Renneboog, L., Ter Horst, J., & Zhang, C. (2008). Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of banking & finance, 32*(9), 1723-1742.

Sardo, F., & Serrasqueiro, Z. (2017). A European empirical study of the relationship between firms' intellectual capital, financial performance and market value. *Journal of Intellectual Capital*, *18*(4), 771-788.

Schadewitz, H., & Niskala, M. (2010). Communication via responsibility reporting and its effect on firm value in Finland. *Corporate Social Responsibility and Environmental Management, 17*(2), 96-106.

Sengur, E.D. (2011). Do Corporate Governance index companies outperform others?: Evidence from Turkey. *International Journal of Business and Social Science, 2*(14).

Sharma, S., Durand, R.M., & Gur-Arie, O. (1981). Identification and analysis of moderator variables. *Journal of marketing research, 18*(3), 291-300.

Hui, W.S., Othman, R., Omar, N.H., Rahman, R.A., & Haron, N.H. (2011). Procurement issues in Malaysia. *International journal of public sector Management*, *24*(6), 567-593.

Solimun, & Fernandes, A.A.R. (2017). Investigation the mediating variable: What Necessary? (Case Study in Management Research). *International Journal of Law and Management, 59*(6), 101-110.

Tricker, B. (2009). *Corporate Governance Principles, Policies and Practices* (1st ed.). Oxford: Oxford University Press.

Waddock, S.A., & Graves, S.B. (1997). The corporate social performance–financial performance link. *Strategic management journal, 18*(4), 303-319.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic management journal, 5*(2), 171-180.

Yunyan, L.I., Guihua, S.U.N., & Peng, D.I. (2020). Evaluation of Government Performance in Haze Pollution Control and the Optimization Path in Beijing. *Chinese Journal of Urban and Environmental Studies*, *8*(3).

Mohammadi, M., Mansouri, M., Shahri, M.A., Sheikhshoaei, F., Abubakar, A.A., Daemi, M., & Banisafar, M. (2018). Effects of scientific collaboration between domestic and foreign authors on quality indices of journals. *Webology, 15*(2), 133-145.