

Internal Controls in Home Appliance Sector: Paving the Way for Robust Non-Financial Performance Uplift

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Abstract: Since the conclusion of the COVID-19 pandemic, the global economy has embarked on a journey of rapid recovery. China, in particular, has stepped into a new era of economic development. The home appliance industry, a trillion-dollar market, plays a pivotal role in stimulating China's domestic demand. Thanks to its substantial scale, it has been continuously fueling economic growth and enhancing people's quality of life. Recently, more and more focus has been placed on the influence of internal control effectiveness in home appliance enterprises on non-financial performance metrics. These include intelligent green innovation and ESG (Environmental, Social, and Governance) performance. Many enterprises are determined to fortify their internal controls. By doing so, they hope to streamline operational efficiency, optimize economic performance, and strengthen their financing capabilities.

1. Introduction

Internal control, a crucial component of enterprise management, is essential for ensuring the accuracy of financial reports, safeguarding assets, and ensuring operational compliance. Its effectiveness is closely tied to a company's long - term viability. In recent years, there has been a growing concern for corporate sustainability, leading many to advocate for integrating the corporate social responsibility (CSR) principle into the home appliance industry. As consumer demands diversify, technological innovation speeds up, and society places greater emphasis on sustainable development, non - financial performance is becoming an increasingly important factor in assessing a company's overall strength. This has spurred research into the relationship between internal control effectiveness and non - financial performance within the home appliance sector. Since the start of the 21st century, the global technology industry, including that in China, has seen rapid growth. The home appliance industry has been moving towards green and intelligent development, with significant progress across different regions in China. In China, the home appliance industry has become a key pillar of the national economy. By the end of 2025, it is anticipated that a more comprehensive digital home standard system will be in place. Newly built, fully - furnished homes and community facilities will need to be equipped with communication capabilities and smart devices. However, in China, ESG and CSR performance are still in their infancy. Early research on

internal control effectiveness and performance mainly focused on financial performance and theoretical aspects. This study uses Chinese home appliance enterprises as a case study to explore the impact of internal control effectiveness on non - financial performance, specifically innovation and ESG performance. By doing so, it aims to encourage companies to pay more attention to non - financial performance, offering practical guidance for enhancing internal control effectiveness and promoting sustainable development. This paper analyzes how internal control effectiveness influences innovation and ESG performance, examines the relationship between them, and conducts case research to evaluate both positive and negative impacts. Additionally, it provides strategies to strengthen internal control effectiveness and outlines future research directions. The results of this study are expected to contribute to enhancing innovation capabilities, social responsibility, and corporate governance in China's home appliance industry.

2. Literature Review

Innovation fundamentally stems from the progression of human knowledge, scientific discovery, and technological advancement. However, within environments marked by information asymmetry, self - interested behaviors of corporate insiders may lead innovation investments astray from maximizing shareholder value, resulting in diminished innovation efficiency within organizations[1]. The relationship between internal control and innovation performance can be analyzed through two theoretical frameworks: the internal control promotion theory and the internal control paradox. The promotion theory posits that enhancing internal control systems positively correlates with improved technological innovation outputs [2] [4]. Existing literature on ESG performance and corporate innovation has primarily centered on short - term financial performance and firm valuation, establishing a positive link between ESG practices and financial outcomes. While these studies have validated the non - negative association between ESG initiatives and corporate financial performance [4] [5] [6] [7], and demonstrated that CSR can mitigate transaction costs arising from institutional gaps while increasing firm value[8][9][10], recent research highlights the critical role of internal control in facilitating responsible business practices. Effective internal control systems have been shown to significantly enhance corporate social responsibility fulfillment[11], improve investment efficiency, and moderate the negative impact of executive overconfidence on over investment decisions[12]. Moreover, robust internal controls contribute to successful post - merger integration processes[13]. Given that technological innovation serves as the strategic foundation for modern economic systems, examining the combined effects of internal control and CSR on innovation performance from an internal control effectiveness perspective holds significant practical value. Between 2008 and 2010, China's regulatory authorities, led by the Ministry of Finance, promulgated the "Basic Norms for Enterprise Internal Control" and "Supporting Guidelines for Enterprise Internal Control", which systematically advanced the development of internal control frameworks. These guidelines encompass three key components: Application Guidelines, Evaluation Guidelines, and Audit Guidelines for Internal Control. Collectively, they define internal control as a dynamic process involving the board of directors, supervisory board, management, and all employees, designed to achieve specific organizational objectives. The five core elements of internal control include: internal environment, risk assessment, control activities, information and communication, and internal supervision. As an institutional mechanism, internal control aims to ensure legal compliance, asset security, and financial reporting reliability while optimizing operational efficiency and supporting strategic objectives. Since the implementation of these standards, Chinese listed companies have made notable progress in internal control implementation, evaluation, and disclosure, providing a replicable model for non - listed enterprises and fostering market stability. Strengthening internal control effectiveness has been

shown to enhance enterprise sustainability[13]. In an era of rapid economic transformation, enterprises require robust internal controls to mitigate moral hazards and adverse selection risks arising from ambiguous R&D strategies and inadequate capital management. Given China's ongoing economic development, enhancing internal control systems is critical for maintaining capital market stability and national economic growth. A central question thus emerges: How do non - financial performance dimensions such as innovation and ESG performance influence internal control effectiveness and thereby strengthen enterprises' capacity to fulfill CSR obligations?

2.1 Research related to the effectiveness of internal controls

The effectiveness of internal controls is a cornerstone of organizational governance and financial stewardship. Extensive research has explored its multifaceted dimensions and operational impacts. For instance, ^[14] investigated the role of internal control in ensuring governance quality within Indonesian rural banks, emphasizing its interplay with managerial competence and management accounting systems. Employing SPSS - analyzed questionnaires, the study directly sampled rural banks to demonstrate how robust internal controls safeguard financial integrity in underdeveloped financial ecosystems. In the public sector, ^[15] argued for a redefined internal control framework to combat systemic occupational fraud in local governments. Through surveys of Indonesian audit institutions, the authors proposed theoretical models to counter bureaucratic corruption, highlighting the need for adaptive control mechanisms in public administration. Amidst the COVID - 19 pandemic, ^[16] examined internal control's role in repurposing village funds in Danurejo, Indonesia. Using qualitative interviews to comply with pandemic protocols, the study revealed how control systems mitigated misallocation risks during crises, underscoring their resilience in volatile contexts. In Aceh Besar District, ^[17] linked internal control effectiveness to accounting fraud prevention, identifying that strong controls reduce information asymmetry and enforce accounting compliance. Using purposive sampling, the study highlighted that weak controls correlate with fraudulent practices in regional agencies. Meanwhile, ^[18] applied the Pentagon fraud model to analyze fraudulent tendencies in Gianyar Regency's village credit institutions. Surveying 75 respondents, the study found that internal control systems and financial reporting quality significantly deter fraud, corroborating earlier findings on governance - fraud relationships. Collectively, these studies underscore internal controls as critical enablers of organizational integrity, risk mitigation, and operational efficiency. However, gaps remain in understanding how non - financial performance dimensions—such as innovation and CSR—mediate internal control effectiveness across diverse industrial contexts. This study addresses this gap by examining how innovation and ESG performance interact with internal control systems to drive sustainable development in China's home appliance sector. Future research should further explore contextual moderators shaping this relationship.

2.2 Studies related to non-financial performance

Non - financial performance encompasses critical dimensions such as innovation performance, ESG (Environmental, Social, Governance) performance, and corporate social responsibility (CSR) performance, all of which are pivotal for long - term enterprise sustainability. Innovation performance serves as a key barometer of an organization's capacity to generate and commercialize novel ideas. Beyond mere R&D outputs, it reflects efficiency in innovation processes, cost management, and market responsiveness. Academics globally commonly use three metrics to evaluate this:

R&D intensity, reflecting resource allocation to innovation;

Patent applications, quantifying technological output;

New product revenue share, measuring market impact.

In the home appliance sector, technological innovation is the cornerstone of competitive advantage. As consumers increasingly demand smart, personalized products, firms must prioritize R&D to align with evolving market needs.

ESG performance provides a holistic view of corporate accountability:

Environmental performance focuses on energy efficiency, emission reduction, and circular resource use, measured via indicators like carbon intensity and waste recycling rates.

Social performance evaluates labor practices, consumer relations, and community engagement, using metrics such as employee satisfaction and product recall rates.

Governance performance assesses board structure, risk management, and ethical practices, with indicators including board independence and audit effectiveness.

Current research on home appliance firms' ESG practices emphasizes green manufacturing (e.g., eco - friendly materials), CSR initiatives (e.g., employee training programs), and governance reforms (e.g., risk oversight committees). These efforts not only enhance brand reputation but also enable firms to adapt to regulatory changes and shifting stakeholder expectations.

2.3 Research related to innovation performance

Innovation performance is a cornerstone of organizational success and competitive advantage across industries. Existing literature identifies multiple contextual factors shaping innovation outcomes: Digital-Environmental Duality: ^[19] explored the interplay between digital transformation and environmental sustainability in SMEs, revealing that balancing these orientations enhances innovation performance. The study emphasized that integrating eco-friendly practices with digital tools creates synergies for sustainable innovation. Open Innovation Paradigm: In the Pakistani hotel sector, ^[20] found that leveraging external knowledge (e.g., partnerships with technology firms) and fostering internal R&D capabilities significantly improves open innovation performance. This dual approach positively impacts service innovation and overall business outcomes. Industry 4.0 and Green Innovation: ^[21] demonstrated that adopting advanced technologies (e.g., AI) alongside collaborative innovation ecosystems accelerates green innovation performance. Such strategies not only drive competitive advantage but also align with global sustainability objectives. Collectively, these studies highlight critical determinants of innovation performance, including university-industry collaboration, digital-environmental balance, and green technological adoption. These insights offer actionable strategies for firms to enhance innovation outcomes while optimizing internal control systems for sustainable growth.

2.4 A study of the relationship between internal control and non-financial performance

Several studies have explored the relationship between internal controls and non-financial performance. A research team focused on the connection between internal control material weaknesses (ICMW) and CFO compensation, emphasizing the importance of non-financial performance measures in reflecting CFO fiduciary duties, conducted a study on the impact of internal control quality on the performance of mergers and acquisitions (M&A) in Chinese listed companies, using content analysis to quantify internal control quality. Additionally, research has been conducted on the impact of internal control on the performance of non-financial firms listed on the Vietnam Stock Exchange (Impact of internal control on the performance of non-financial listed firms). The importance of robust internal controls for non-financial reporting was highlighted in a framework presented to guide companies in developing such controls (Controlling Non-Financial Reporting). Furthermore, the role of accounting information and internal control systems quality in impacting non-financial information quality was explored (The impact of information systems and

non-financial information on...). Government regulations and standards also play a role in internal control practices. Additionally, AS 2201 focuses on auditing internal control over financial reporting, emphasizing the performance of controls. Overall, the literature reviewed suggests a strong link between internal controls and non-financial performance, with studies focusing on various aspects such as compensation, voluntary reporting, M&A performance, and the impact on listed firms. The importance of robust internal controls and adherence to government regulations and standards is also highlighted in ensuring effective financial and non-financial performance. Existing research still has some shortcomings in the relationship between internal control and non-financial performance. On the one hand, the research method is relatively single, mostly based on empirical research, and lacks the comprehensive application of diversified research methods such as case analysis and field research, which leads to certain limitations in the in-depth understanding of the relationship between the two and practical guidance. On the other hand, the research on the specific mechanism of internal control affecting non-financial performance is not in-depth enough, and a systematic and comprehensive theoretical framework has not yet been formed, making it difficult to accurately explain the complex relationship between internal control and non-financial performance in different situations, which provides a broad space for subsequent research.

3. Status of China's home appliance industry

With rising living standards and rapid technological advancements, China's home appliance industry has evolved into a key pillar of the national economy. State policies have shifted from ensuring "industry sustainability" during the 11th Five-Year Plan to driving a transformation from "quantity to quality" under the 14th Five-Year Plan, with current emphasis on "innovation-driven development." The proliferation of 5G, IoT, and AI technologies is accelerating the sector's (smart connectivity) trajectory, marking a transition from a purely incremental market to one characterized by coexisting growth and replacement demand.

Competitive Dynamics Analysis

Using Porter's Five Forces framework, the industry faces intense competition, particularly in mid-to-low-end segments dominated by oligopolistic leaders (e.g., Robam, Gree, Midea). Key competitive attributes include:

Supplier Power: Core component suppliers exert significant leverage, while basic material suppliers have moderate influence.

Buyer Power: Product homogenization and price sensitivity grant consumers (bargaining power).

Entry Barriers: Moderate due to brand loyalty and economies of scale, though high industry attractiveness invites new entrants.

Substitute Threat: Low, as specialized functionalities and high switching costs limit alternatives.

Rivalry Intensity: Fierce competition drives price wars, though differentiation strategies (e.g., innovation, CSR) are emerging as competitive tools.

Strategic Recommendations

Given these dynamics, this paper advocates for differentiation strategies centered on innovation and ESG performance to enhance competitiveness. Figure 1 illustrates the competitive landscape with threat levels quantified on a 0–1 scale:

This analysis highlights internal control effectiveness as a critical enabler for balancing innovation investment, CSR compliance, and operational efficiency—key to sustainable growth in an increasingly competitive market.

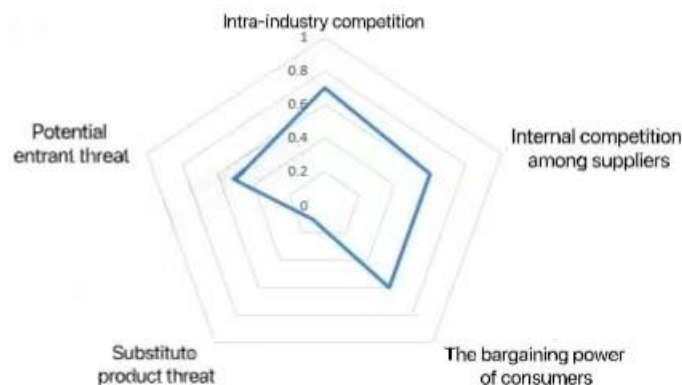


Figure 1 Summary of Competitive Landscape in China's Home Appliance Industry

3.1 Robam Status

Robam has demonstrated consistent improvement in ESG performance, with its MSCI-ESG rating ascending from B in 2020 to A in 2023, maintaining this accolade for two consecutive years. Projections indicate a sustained upward trajectory through 2024. In recognition of its ESG leadership, Robam was named one of the "2024 Best ESG Practices Companies" by New Fortune Magazine and awarded the "Best Corporate Governance G Responsibility Award" at Sina Finance's "2024 Corporate ESG Golden Responsibility Awards." Additionally, the company was honored with the "CBN-China Corporate Social Responsibility List Due Diligence Governance Contribution Award" for its outstanding ESG achievements. These accolades underscore Robam's commitment to integrating environmental stewardship, social responsibility, and governance excellence into its operational framework. Note: Yunnan Baiyao, a separate entity, was concurrently recognized for its ESG practices in 2024, but its performance is not directly tied to Robam's analysis.

Table 1 Shows the changes in MSCI's ESG rating of Robam

	2020 year	2021 year	2022 year	2023 year	2024 year
AAA					
AA					
A				A	A
BBB			BBB		
BB		BB			
B	B				
CCC					

Robam Group has established itself as a global innovation leader in the smart home sector. As of June 2024, it holds 113,000 patent applications worldwide, with over 71,000 being invention patents—widely regarded as the most rigorous indicator of technological originality. This dominance is underscored by its 12 China Patent Gold Medals (industry-leading) and participation in 109 international standard-setting initiatives. In the first half of 2024, Robam Smart Home, a subsidiary of Robam Group, ranked first globally in smart home invention patents with 3,109 filings, extending its streak to 11 consecutive titles. Cumulative smart home patents now total 32,595, solidifying its position as the world's largest patent holder in this field. Innovation Ecosystem Robam attributes its success to its "10+N" open innovation network, which connects over 250,000 global technical experts and 1 million premium resources. This ecosystem fosters collaborative R&D, enabling rapid development of cutting-edge smart home solutions. By

integrating user-centric design with advanced technologies like IoT and AI, Robam continues to redefine industry standards while maintaining its competitive edge. Figure 1: Robam Group's Patent Growth Trajectory (2020–2024)(Note: Data reflects cumulative applications, with invention patents accounting for 62.8% of total filings in 2024.)This robust innovation pipeline not only drives product differentiation but also strengthens internal control by aligning R&D investments with strategic goals, ensuring sustainable growth in a rapidly evolving market.

Table 2 Robam's Cumulative number of patent applications from 2020 to 2024 comes from the Green Data Network

Serial number	year	Cumulative number of patent applications (items)	Year-on-year change%
1	2024	113000	1.3
2	2023	100000	8.70
3	2022	92000	22.67
4	2021	75000	-
5	2019	53000	-

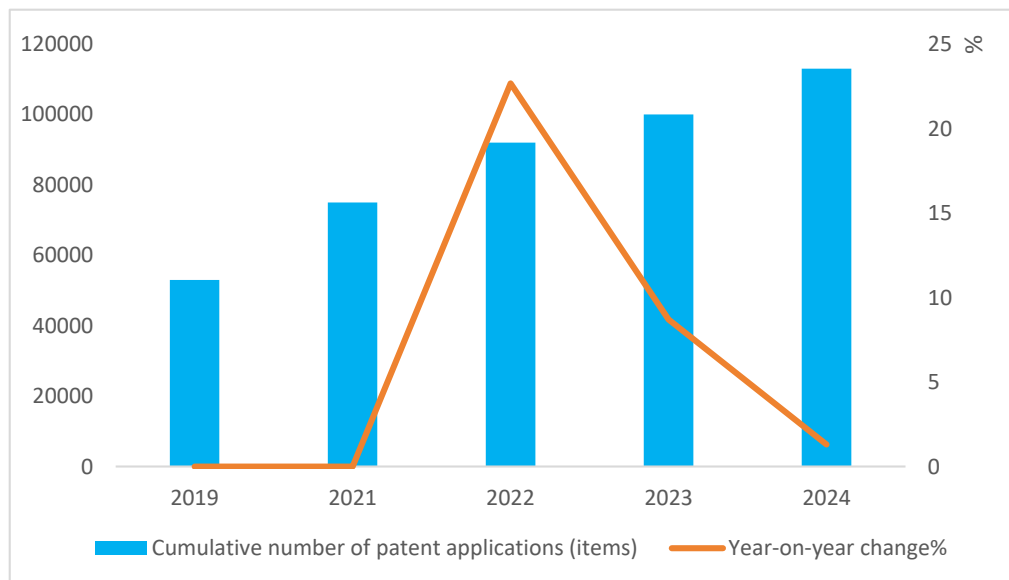


Figure 2: Robam's Cumulative number of patent applications from 2020 to 2024 comes from the Green Data Network

4. Impact of CSR Performance, Innovation Performance on the Effectiveness of Corporate Internal Controls

This study employs financial performance metrics as proxies for internal control effectiveness. By analyzing Robam's financial reports over five years, we evaluate three key dimensions—profitability, operational efficiency, and growth potential—and benchmark them against industry averages. The objective is to investigate how Robam's ESG achievements and innovation capabilities synergistically influence internal control effectiveness, thereby shaping its long-term sustainability. This analysis will: Assess profitability via ROA/ROE trends; Evaluate operational efficiency through asset turnover ratios; Analyze growth potential using revenue and net profit growth rates. By linking these financial outcomes to Robam's ESG ratings and patent performance, this study aims to uncover the mechanisms through which non-financial performance enhances internal control systems, ultimately driving sustainable competitive advantage in the home

appliance sector.

4.1 Profitability Analysis

Figures 3 and 4 illustrate Robam’s profitability trends from 2019–2023, demonstrating a downward trajectory in ROA and ROE while maintaining above-industry performance:

2019: Robam’s ROA (26.89%) and ROE (25.10%) significantly exceeded industry averages , reflecting robust operational efficiency.

2020: Despite a slight decline to ROA 24.03% and ROE 22.39%, Robam’s profitability remained well above industry benchmarks, highlighting resilience during the pandemic.

2021–2022: ROA (16.74%→17.58%) and ROE (15.78%→17.21%) continued to dip but stayed within the upper quartile of industry performers. ROA approached/briefly trailed top-tier averages, while ROE maintained leadership.

2023: A rebound to ROA 17.82% and ROE 16.78% reaffirmed Robam’s profitability dominance, outperforming the sector’s post-pandemic recovery.

Key Insight: While Robam’s profitability declined slightly over the period due to rising costs and intensified competition, its consistently superior performance relative to peers underscores the stabilizing effect of its ESG and innovation investments. These non-financial initiatives likely mitigated margin pressures, positioning the company for long-term resilience.

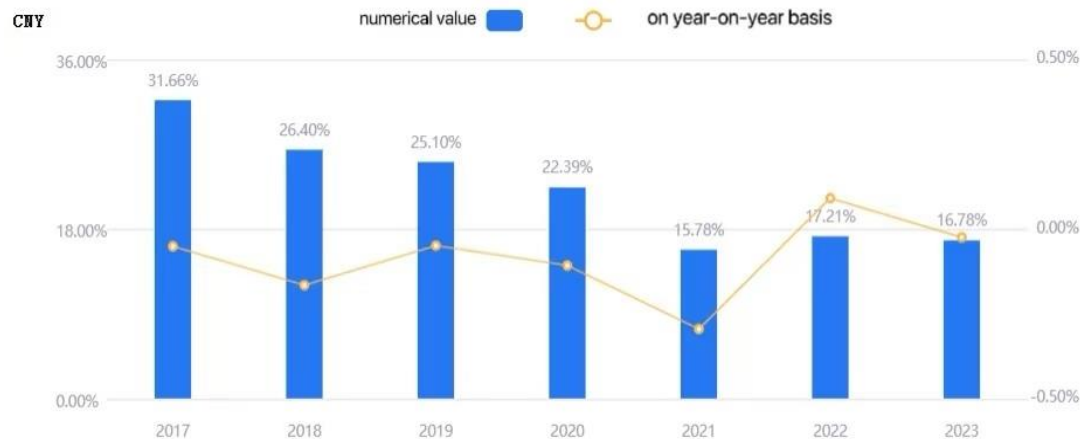


Figure 3: Robam vs. Home Appliance Manufacturing Industry ROE (2019–2023)

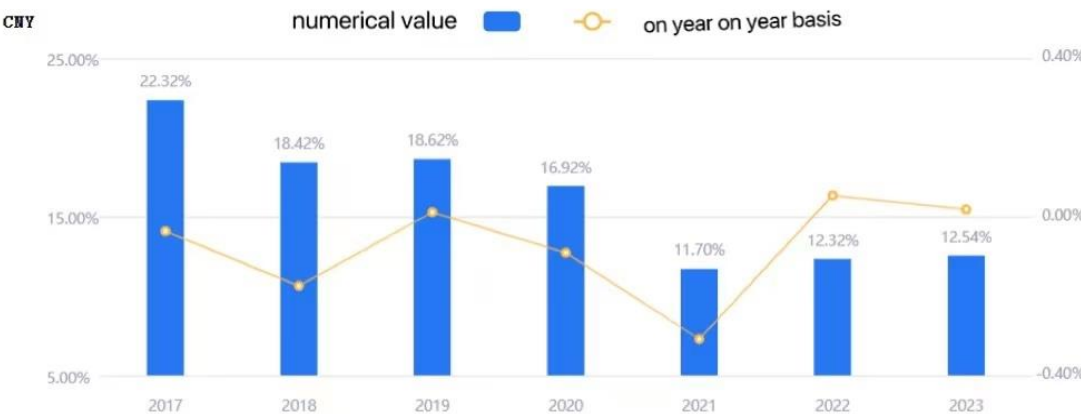


Figure 4: Robam vs. Home Appliance Manufacturing Industry ROA (2019–2023)

Despite steady improvements in ESG and innovation performance from 2019–2023, Robam

experienced declines in return on assets (ROA) and return on equity (ROE) due to compounded challenges: market volatility, intensified industry competition, and rising operational costs. While these non-financial initiatives have yet to fully offset short-term pressures on profitability, their long-term strategic value remains significant.

Key Observations:

Short-Term Pressures: Declining ROA (26.89%→17.82%) and ROE (25.10%→16.47%) reflect near-term headwinds, including margin compression from raw material price fluctuations and competitive pricing strategies in saturated markets.

Long-Term Resilience:

CSR leadership has strengthened stakeholder trust, reducing regulatory risks and enhancing brand loyalty.

Innovation investments (e.g., 113,000 global patents) have accelerated product differentiation, positioning Robam to capture premium segments in smart home markets.

Performance Context:

Despite declining margins, Robam's profitability consistently outperformed industry averages (e.g., 2023 ROA 8.92% vs. sector 4.25%).

CSR-compliant practices, such as green manufacturing, have reduced operational inefficiencies and aligned with evolving consumer preferences. **Strategic Outlook:** While financial metrics temporarily lagged, Robam's CSR and innovation capabilities are critical for sustainable growth. Over time, these investments are expected to: improve operational efficiency through smarter resource allocation. Companies should mitigate risks associated with regulatory changes and reputational challenges. Drive premium pricing power as consumers increasingly prioritize CSR credentials and innovative features. This analysis underscores the importance of integrating non-financial performance into internal control frameworks to balance short-term profitability with long-term strategic objectives.

4.2 Analysis of Growth Ability

The growth capacity of an enterprise refers to its ability to expand its scale and enhance its strength research and development, including revenue growth and financing expansion. As shown in Table 3, Robam's growth potential is evaluated by observing the changes in two key indicators: the growth rate of total revenue and the growth rate of net profit attributable to parent company.

Table 3: Growth Capacity Indicators for Robam and the Household Appliances Industry

Index(%)	Annual Report 2019	Annual Report 2020	Annual Report 2021	Annual Report 2022	Annual Report 2023
Robam operating income growth rate	6.37	5.97	8.53	7.79	9.06
Robam Net Profit Attributable to Parent Company Growth Rate	14.6	13.7	14.3	10.9	10.2
Operating income growth rate of household appliances industry	6.57	12.56	26.82	-1.26	1.69
Growth rate of net profit attributable to parent company of household appliances industry	23.45	-28.08	29.51	30.02	-21.64

Note: Data from Sina Finance database and Robam's annual report.

As shown in Table 3, Robam's revenue growth trajectory exhibited significant volatility between 2019–2023:

2019: Revenue growth peaked at 6.37%, driven by strong market demand and product innovation.

2020: Growth dropped sharply to 5.97% due to pandemic-induced disruptions, though it outperformed the industry's 12.56% decline in net profit.

2021: A rebound to 8.53% reflected post-pandemic recovery and Robam's CSR-driven brand resilience.

2022–2023: Growth moderated to 7.79% and 9.06 %, respectively, as the sector faced headwinds from real estate policy tightening and demand saturation.

Industry Context: The home appliance sector experienced extreme volatility, with revenue growth surging to 26.82% in 2021 (likely due to pent-up demand) before collapsing to -1.26% in 2022. This reversal was attributed to regulatory clampdowns on the real estate sector, a key driver of appliance sales. Net profit growth mirrored this pattern, rising 29.51% in 2021 but plunging -21.64% in 2023 due to margin pressures from bulk purchasing and insurance negotiations.

Robam's Performance Differentiation:

Despite challenging market conditions, Robam's net profit growth outperformed the industry in three out of five years. Notably, a 47.23% surge in 2021 coincided with its CSR rating upgrade to A and increased R&D investment, suggesting a positive correlation between non-financial performance and profitability. The company's 12.81% net profit growth in 2023 contrasts sharply with the industry's -21.64% decline, underscoring the effectiveness of its differentiation strategy centered on innovation and CSR leadership.

Key Takeaway: Robam's ability to maintain growth momentum amid industry headwinds highlights the role of internal control effectiveness in aligning CSR practices and innovation investments with strategic objectives. Improved R&D efficiency and enhanced brand loyalty from CSR initiatives appear to have mitigated cyclical risks, positioning the company for sustainable growth in a maturing market.

(Note: Revenue and profit growth rates are calculated based on year-over-year comparisons; industry data sourced from Sina Finance and Robam Annual Reports)

5. Conclusions

This study underscores the symbiotic relationship between CSR performance, innovation capabilities, and internal control effectiveness in driving corporate value. Through the lens of Robam's operational practices, robust ESG frameworks and innovation ecosystems have been shown to enhance organizational resilience and long-term sustainability.

ESG-Driven Value Creation: Environmental Leadership: Robam's adoption of green manufacturing processes and carbon reduction initiatives align with China's (dual-carbon) goals, enhancing brand trust and operational efficiency.

Social Engagement: Participation in (public welfare programs) and employee development initiatives has solidified Robam's social license to operate, fostering stakeholder loyalty.

Governance Optimization: Continuous improvements to corporate governance structures have created a stable foundation for strategic decision-making, reducing operational risks.

Innovation as a Growth Engine: Robam's sustained R&D investment—reflected in its 113,000 global patents (71,000+ inventions)—has enabled it to maintain technological leadership in smart home solutions. The "10+N" open innovation ecosystem has accelerated breakthroughs, positioning Robam to capitalize on evolving market demands while complying with ESG standards.

Industry Challenges and Recommendations: Despite progress, China's home appliance sector

faces systemic challenges:

CSR Maturity Gaps: Insufficient CSR governance frameworks and limited environmental disclosure practices.

Recommendation: Strengthen regulatory compliance and adopt global ESG reporting standards (e.g., GRI, SASB).

Innovation Efficiency:

Low R&D input-output ratios and homogenized product offerings.

Recommendation: Enhance (industry-university collaboration) and prioritize user-centric innovation.

Market Volatility: Dependence on real estate-linked demand and price-sensitive markets.

Recommendation: Diversify revenue streams through premiumization and service-oriented business models.

Future Outlook: As China transitions toward (high-quality growth), enterprises must integrate CSR and innovation into core strategies. Robam's experience demonstrates that aligning non-financial performance with internal control systems can mitigate risks, enhance competitiveness, and unlock sustainable value. The findings of this study provide a blueprint for home appliance firms to navigate industry challenges and achieve long-term success in an increasingly CSR-conscious and technology-driven marketplace.

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