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Research.

How Does Financial Performance and Corporate Governance Effect the Sustainability Reporting Quality?

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Abstract. *This study focuses on the effect profitability, leverage, and sustainability committees have on sustainable reporting quality in banking for period 2022–2024. The profitability is a Return on Assets (ROA), leverage is a Debt-to-Equity Ratio (DER), and the sustainability committee is a binary variable. Sustainability reporting quality is based three key indicators, number of pages, number of words, and assurance in the sustainability report. This study adopts quantitative research with purposive sampling, resulting in 63 observation samples. Data analysis methods include multiple linear regression on IBM SPSS Statistics version 27. This study reveals that profitability and the sustainability committee are not proven to significantly effect the sustainability reporting quality. But, leverage positively and significantly effect the sustainability reporting quality. With this study, hopefully, researchers can contribute academic knowledge the literature sustainability reporting and the factors that influence its quality.*

Keywords: Sustainability Reporting Quality, Financial Performance, Profitability, Leverage, Sustainability Commitee

INTRODUCTION

Background

In recent year, sustainability reporting become a key focus in business activities across various countries, in line with growing demands for corporate transparency regarding the environmental, social, and governance (ESG) impact arising from company operational activities (Triyono et al., 2025). Globally, over 98% of companies have published sustainability reports with varying levels of detail on sustainability, and around 69% of these have obtained assurance on some of the sustainability information presented (IFAC, 2024). In addition, the level of transparency in sustainability reporting is still not fully consistent with applicable standard-based indicators. This situation has led to discrepancies in guidelines, resulting in a lack of consistency in information, incomplete disclosures, and a less than optimal reflection of companies' sustainability performance (Baroroh & Ul Usholikhah, 2026).

In Indonesia, the obligation to prepare sustainability reports is reinforced by POJK No. 51/POJK.03/2017, which requires financial services institutions to prepare and publish sustainability reports on a regular basis(OJK, 2017). However, according to the results of the Global Investor Survey conducted by PwC in 2023, PwC reports that the diversity in sustainability reports actually leads to important information being overlooked, making the decision-making process by investors difficult. The study indicates that the need for information for key investor decisions has been met by companies' compliance with sustainability policies, as perceived by 57% of investors. Furthermore, 85% of investors believe that crucial role in building trust, especially for medium and large companies, is played by external assurance, particularly sustainability report audits (PwC, 2023).

Previous research on factors influencing sustainability report quality has produced mixed results. In terms of financial performance, (Listiani & Fadjar, 2025) found that That profitability positively and significantly effects the sustainability reporting. It is indicated by these results that companies with higher levels of profitability to have greater resource capacity to support various sustainability initiatives, thereby eventually improving the performance of their sustainability initiatives. Different findings were put forward by (Nafis & Putra, 2024) who stated that profitability does not have a significant influence. It is explained in the study that the improvement in their sustainability reporting quality is not necessarily motivated by companies with high profit levels, as management's primary focus is more on operational efficiency and profit growth rather than on the expansion and enhancement of sustainability disclosure quality.

In addition, from the perspective of financial performance measured through leverage (Sitorus et al., 2024) found that leverage has significant effects the sustainability reporting quality. This result reflects that greater pressure from creditors and other stakeholder groups for clearer and more transparent information disclosure is faced by companies with relatively high levels of debt. However, contrasting results were obtained by (Aryani & Syarif, 2025) who found that leverage not have a significant effect the sustainability reporting quality. Regarding corporate governance, (Mshana, 2024) expressing the sustainability committee has positive and significantly effect the sustainability reporting quality. This is based on company's capacity that has a corporate social responsibility (CSR) committee to produce quality sustainability reports. Conversely, the study (Sulistyarini, 2025) obtained different results, the sustainability committee does not have a significant on sustainability reporting quality. These findings indicate existence of sustainability committee not automatically guarantee the production on corporate sustainability reporting quality.

The findings of this research with that of previous research were contradictory and it indicates that there are still research gaps to be filled particularly for the case of Indonesian banking industry following the full implementation of POJK No. 51/POJK.03/2017. In the present investigation the sustainability committee is clearly defined as a governance tool focused on the handling of environmental, social and governance (ESG) issues. This variable is still relatively understudied in empirical research as relates to other more "popular" corporate governance mechanisms like the board of commissioners and audit committee, so the prevailing posture of the banking sector being forced to operate under an ever tightening rule are not fully reflected. Thus, this research investigates the under monotonous conventional commercial banks listed in the Indonesia Stock Exchange (IDX) during 2022-2024 whether financial performance and corporate governance influence quality of sustainability reporting.

The Research Question

According to the background discussed above, the research question formulated is

1. How does Profitability effect the Sustainability Reporting Quality?
2. How does Leverage effect the Sustainability Reporting Quality ?
3. How does Sustainability Commitee effect the Sustainability Reporting Quality?

The provisional objective this study is:

1. Analyzing the influence profitability on Sustainability Reporting Quality
2. Analyzing the influence leverage on Sustainability Reporting Quality
3. Analyzing the influence sustainability committee on Sustainability Reporting Quality

LITERATURE REVIEW

Stakeholder Theory

Through his research, (Freeman, 1984) responsibility of companies towards not only their shareholders, but also all stakeholders.In relation to sustainability reporting, this theory accounts for the fact that companies disclose information about sustainability issues under the influence of their information needs from their stakeholders. Various empirical studies have demonstrated that the direct involvement of stakeholders can significantly enhance the credibility and usefulness of the sustainability report itself (Manetti, 2011). Other studies also conclude that the establishment of strong relationships between companies and their stakeholders contributes to the improvement of the quality of non-financial reporting (Rudyanto & Siregar, 2018). Therefore, the demands and expectations of stakeholders become determining factors in producing high-quality sustainability reports.

Agency Theory

The agency theory developed by (Jensen & Meckling, 1976) It has been demonstrated by various studies that the enhancement of transparency and quality in corporate reporting can be achieved through the implementation of good corporate governance (Michelon & Parbonetti, 2010). It is also revealed by another study that an increase in clarity and accuracy in corporate reporting contributes to the implementation of effective corporate governance (Velte, 2022). Empirically, it has been proven by various studies that the improvement of the quality of information communicated to stakeholders is influenced by the establishment of special committees related to corporate social responsibility. (Celentano et al., 2020). It is further demonstrated by (Suwarno & Syaiful, 2025) that the positive impact on the quality of sustainability reporting is held by the audit committee as a corporate governance mechanism. Based on this, emphasis the importance of implementing good governance in promoting the improvement of sustainability reporting quality is highlighted by agency theory.

Hypothesis Development

a. How Does Profitability Effect the Sustainability Reporting Quality

According to stakeholder theory, financially successful companies tend to be more open in maintaining the trust of their stakeholders. A company's ability to generate revenue is reflected in high profits, which in turn allows for the preparation of better sustainability reports.

Companies with high profitability levels generally have a more adequate resource allocation capacity to support sustainability reporting activities, thereby producing higher quality reports (Yohana & Suhendah, 2023). Furthermore, the role in promoting transparency and supporting the adoption of sustainability reporting practices as part of the implementation of good corporate governance is played by profitability (Listiani & Fadjar, 2025). That the significant influence in improving the sustainability reporting quality, both directly and as an intermediary factor in corporate governance, is also possessed by profitability has been demonstrated by various other studies (Aryani & Syarif, 2025). Better sustainability reports are generally also produced by highly profitable companies, driven by a strong desire to enhance the company's reputation in the eyes of the public (Weli & Tamin, 2025).

H1: Profitability Positively Effects the Sustainability Reporting Quality

b. How Does Leverage Effect the Sustainability Reporting Quality

According to theory, stakeholder theory indicates that companies with high levels of debt tend to increase transparency and the quality of their sustainability reports in order to reduce information uncertainty and meet the information needs of creditors and other stakeholders.

Leverage indicates the extent to which a company relies on external funding, thereby promoting transparency towards creditors and stakeholders. Research shows that leverage has significant effect the sustainability reporting disclosure (Sitorus et al., 2024). Furthermore, other studies indicate that leverage has positive effect the sustainability reporting due the increased need for sustainable financing (Yohana & Suhendah, 2023). In addition, leverage has also been shown to enhance ESG disclosure as a signal to build stakeholder trust (Manuputty et al., 2025). The demand for greater transparency and discipline in sustainability reporting is driven by pressure from creditors (Noor & Sari, 2026)

H2: Leverage Positively Effects the Sustainability Reporting Quality

c. How Does Sustainability Committee Effect the Sustainability Reporting Quality

Agency theory highlights the crucial role of governance in aligning management priorities with stakeholder demands. This context, implementation of sustainability committee serves as a concrete manifestation of the banking sector's institutional commitment to monitoring and managing issues related to environmental, social, and governance aspects.

The sustainability committee assists firms in enhancing their sustainability disclosures. Its presence enhances monitoring, diminishes information asymmetry, and leads to higher quality non-financial disclosure (Khatri et al., 2025). Other research also suggests that CSR committees and sustainability committee may enhance the quality of sustainability reporting by enabling the effectiveness of the board of directors in exercising their monitoring role (Kateb & Youssef, 2025). In addition, green governance mechanisms, which include a sustainability monitoring framework, have proven effective at improving the corporate sustainability reporting quality (Chairina & Tjahjadi, 2023). According other studies, other studies confirm that sustainability committees are a key factor contributing positively to the quality of corporate sustainability reporting (Rosyidah & Ningsih, 2025)

H3: Sustainability Committee Positively Effects the Sustainability Reporting Quality

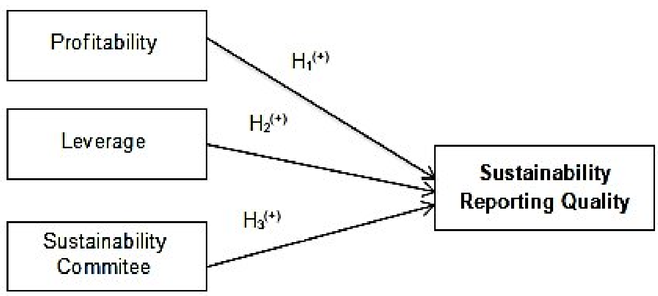

Figure 1. Reseach Conceptual Framework

Source: Research Data, 2026

RESEARCH METHODS

The population in this study includes all public conventional banks listed on the Indonnesian Stock Exchange (IDX) from the period between 2022 and 2024. The selection of these banks was based on the strict regulations and high transparency requirements for sustainability reporting in the banking sector. Sampling was conducted using the purposive sampling method, a technique that allows researchers to selectively choose observation units based on criteria tailored to the needs and relevance of the research topic. The criteria for sample selection are as follows:

Table 1. Determining the Research Sample

No	Description of Criteria	Total
Population	Companies banks operating in Indonesia	105
1	Companies banks not listed on the Indonesia Stock Exchange (IDX) in 2022–2024	(62)
2	Companies banks that did not publish their own sustainability reports during the 2022–2024 period	(22)
Total samples		21
Total observation		63

Source: Reseach Data, 2026

This study employs a non-participatory observational approach, which involves data collection through observation, note-taking, and document review without the researcher's direct involvement with the research subjects. Data were download from the official website of Indonesia Stock Exchange (IDX) and official websites of the companies included in the study sample. This data was then processed, evaluated, and interpreted in accordance with the study's objectives.

The sustainability reporting quality in this study was measured using a quantitative approach, and the number of pages and the word count were used as indicators of the quantity of disclosures (Cascone, 2023). While a binary variable was used to indicate the presence of assurance, assigned a value of 1 if the report had received assurance and a value of 0 otherwise (Alsahali et al., 2024).

$$SRQ = \frac{\text{Ln(number of pages)} + \text{Ln(word count)} + \text{Assurance (dummy 0/1)}}{3} \text{..........} 1$$

Profitability Ratios are used to assess a company's ability to continue its operations and also its potential to earn profits in the future (Krisyadi & Elleen, 2020).In this study, profitability is indicated by (ROA) (Muhadi, 2013)

$$Return\ On\ assets = \frac{Net\ profit}{Total\ asset} \text{.......} 2$$

Leverage ratio describes the extent to which a company's operational activities are financed by external sources in the form of debt (Krisyadi & Elleen, 2020). Leverage is represented by Debt to Equity Ratio (DER) in this study (Muhadi, 2013)

$$Debt\ to\ Equity\ Ratio = \frac{Total\ \ liability}{Total\ equity} \text{.......} 3$$

Existence of a sustainability committee in this study is captured by a dummy variable that equals 1 if the firm has a sustainability committee and zero otherwise. (Gull et al., 2024). The study employs multiple linear regression to analyse the influence of financial performance and corporate governance factors on sustainability reporting quality.

$$SRQi,t = \alpha + \beta 1X1\ i,t + \beta 2X2\ i,t + \beta 3X3\ i,t + \varepsilon i,t$$

Where:

SRQi,t	=	Sustainability Reporting Quality
α	=	Constanta
β1 - β3	=	Variable Regression Coeficient
X1	=	Profitability
X2	=	Leverage
X3	=	Sustainability Commitee

$\varepsilon i,t$ = Error

RESULTS AND DISCUSSION

Descriptive statistics are calculations such as mean, median, variance, and standard deviation, which are used to describe research data briefly including research data characteristics. The result of this descriptive analysis are then in the form of table presented.

This research uses the data of the conventional commercial banks that are listed on the Indonesia Stock Exchange (IDX) in 2022-2024. The study was selected through the purposive sampling method, and 21 companies with maximum of 63 observation unit Among all The whole data was acquired from the each sampled company annual report and also the sustainability of report.

Table 2. Analytical Descriptive

	N	Minimum	Maximum	Mean	Std. Deviation
SRQ	63	12.520	17.640	15.189	1.258
Profitability	63	0.660	2.520	2.205	0.269
Leverage	63	1.610	2.920	2.333	0.275
Sustainability Commite	63	0.000	1.000	0.140	0.353
Valid N (listwise)	63				

Sumber: Reseach Data, 2026

The Sustainability Reporting Quality variable ranges from a min of = 12.520 max of = 17.640, average of = 15.189. Profitability shows an average value of = 2.205, indicating the companies total assets generate a profit. Leverage average value = 2.333, indicating a company's relatively diversified finance structure. The sustainability committee shows an average of = 0.140, indicating that only a small portion of the sample include a sustainability committee.

Tabel 3. Test of Classical Assumptions

Types of Tests	Test Results	Criteria	Conclusion
Normality	Sig. = 0.085 > 0.05	Data with a normal distribution	fulfilled
Multikolinearitas	VIF < 10; Tolarance > 0.10	There is no multicollinearity	fulfilled
Heteroskedastisitas	< 0.05	There is no heteroscedasticity	fulfilled
Autocorrelation	DW = 1.822	No autocorrelation	fulfilled

Sumber: Reseach Data, 2026

From Table 3, the following is the classical assumption test result summary. The Shapiro-Wilk normality test result (Asymp. Sig. = 0.085) was above the level of significance > 0.05, which means the data of this study were normally distributed. In the multicollinearity test, all variables have VIF values < 10 and Tolerance > 0.10, which indicate the absence of multicollinearity symptoms among the independent variables. I n contrast, the test for heteroscedasticity revealed that all the variables had a significance value less than 0.05, which implies the model was not affected by heteroscedasticity. Furthermore, the Durbin-Watson autocorrelation test showed no autocorrelation in the model with a DW-value of 1.822. After reviewing all the output, we can say that All Classic Assumptions are Holds good and so the regression model is now good to go for further analysis.

Table 4. Multiple Regression Analysis

Coeffisients					
Model	Unstandardized Coefficients		Unstandardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10.829	1.734		6.246	<.001
Profitability	0.799	0.578	0.171	1.381	0.173
Leverage	1.153	0.576	0.252	2.002	0.050
Sustainability Committee	-0.636	0.447	-0.178	-1.421	0.161

Source: Reseach Data, 2026

Registers results indicate the variable profitability the coefficient value is 0.799 with significancy 0.173. This value is higher than the established level of significance > 0.05, suggesting that profitability is positively but not significantly related to the quality of sustainability reporting. Hence, the the first hypothesis is (H_1) is **rejected** in this study.

Regression testing on the leverage variable revealed a coefficient value of 1.153 with a significance value of 0.050. Because this implication value is not higher than < 0.05, we can guess that leverage positively and significantly improve the quality of the company's sustainability reports in this case. Hence, the second hypothesis (H_2) is **supported** in this study.

Sustainability committee variable has a regression coefficient of -0.636 with the level of significance 0.161. Based on the significance value that is > 0.05, it can be interpreted that the sustainability committee is not significantly related to quality of sustainability reporting. Thus,the the third hypothesis (H_3) of this research is **rejected**.

Tabel 5. Test Coefficient of Determination (R^2)

Model summary			
Model	R	R Square	Adjusted R Square
1	0.336	0.113	0.068

Source : Reseach Data, 2026

From the summary table, Unser was 0.113 with a R-Square value of 11.3% was obtained. This means that three independent variables (profitability, leverage and sustainability committee), together only explain 11.3% of the variation in the quality of sustainability reporting. The other 88.7% is affected by other variables that are not in this model of study. On the other hand, the Adjusted R-Square of 0.068 represents how good the model is in explaining 6.8% of the dependent variable considering the number of independent variables and the sample size.

a. Effect of Profitability the Sustainability Reporting Quality

The empirical test results show that profitability does not have a significant effect the sustainability reporting quality. This finding does not support stakeholders theory, which argues that companies with superior financial performance should have greater resource capacity to meet stakeholders' information needs through quality sustainability reporting (Freeman, 1984). However, results of this study indicate companies with high profits do not always feel the need to upgrade sustainability reporting quality. This is because management's focus may be more on operational efficiency and profits than on more comprehensive and quality sustainability disclosures.

This result is consistent with Rahayu & Dwi, (2026) which shows that profitability does not have a significant effect on sustainability reporting quality because sustainability disclosures are motivated more by regulatory obligations than by a company's profitability. Mandagie et al., (2022) Further reinforcing this argument by asserting that the company's financial condition is not the primary factor driving management to produce quality sustainability reports. This result, does not align with the study by (Yohana & Suhendah, 2023) which proved that profitability has a positive significant influence and stated that financially healthy companies have greater resource capacity to prepare comprehensive sustainability reports the sample sample of companies the energy sector listed on (IDX).

b. Effect of Leverage the Sustainability Reporting Quality

The results indicate that leverage effects the sustainability reporting quality. These results support stakeholder theory, which explains that companies with high debt levels tend to increase information transparency to reduce information asymmetry between management and creditors. Through high-quality sustainability reports, companies seek to gain legitimacy and maintain stakeholder trust, particularly among creditors and investors (Freeman, 1984).

This result supports studies conducted by (Noor & Sari, 2026) and (Sitorus et al., 2024) showing positive and significant impacts of sustainability reporting quality. These findings suggest sustainability reporting quality tends to improve when companies increase the quality of information to stakeholders, or investors. In the context of the banking sector (Ahmad & Naseer, 2025) firms that are more reliant on external financing tend to expand the scope of their disclosures. In that case, leverage plays a key factor in explaining variations of sustainability reporting, indicating that disclosure decisions are influenced not only by reputational considerations but also by a firm’s financing structure and the need to reduce information asymmetry. These findings align with (Putry & Meli, 2025).

c. Effect of Sustainability Committee the Sustainability Reporting Quality

This study results indicate sustainability committees have no effect on sustainability report quality. This finding does not support Agency Theory, which claims that sustainability committees should help companies meet stakeholder demands for transparency in sustainability information. Jensen & Meckling. Jensen & Meckling, (1976). Instead, the findings suggest that sustainability committees are likely merely a formality and do not effectively improve sustainability report quality.

This finding is consistent with (Sulistyarini, 2025) and (Al-Shaer & Zaman, 2022) which indicate the existence a sustainability committee is not indicative of effective sustainability implementation within a company. Bifulco et al., (2023) also found that sustainability committees do have a significant effect the relationship between ESG and a company’s market value. Several studies also reveal the positive and significant influence of the committee on sustainability reporting quality, a finding generally observed in research that measures committee characteristics such as size, independence, expertise, and gender diversity (Aprianti et al., 2022). This is reinforced by (Inten Meutia et al., 2023) who found that independence and non-financial expertise in sustainability are the primary determinants of a committee’s effectiveness in enhancing sustainability reporting disclosures. (Li et al., 2025) revealed that the effect of committees is stronger in companies with high governance quality and ownership that prioritizes core stakeholders. In emerging markets such as Indonesia, regulatory and investor pressure on sustainability is still low, so committees tend to be inactive. It was found there is no significant efect the CSR committee in relation to ESG and a company’s market value.

CONCLUSIONS AND SUGGESTIONS

This study’s findings indicate profitability has no effect the sustainability reporting quality, suggesting that companies tend to prioritize financial performance and operational objectives over improving the quality of sustainability disclosures. These results indicate that high profitability does not necessarily encourage corporations to produce quality sustainability reports. Conversely, leverage positively and significantly affects sustainability reporting quality, suggesting that companies enhance the sustainability reporting quality because of transparency, accountability, and efforts to maintain stakeholder confidence, particularly among creditors and investors. Meanwhile, the sustainability committee does not significantly affect sustainability reporting quality, suggesting the existence of such a committee is likely still merely a formality and has not yet been fully effective in improving a company's sustainability reporting practices.

This study has several limitations, one of which is the relatively low value of Adjusted R-Square. This means that the independent variables are insufficient to explain the variance in the quality of sustainability reporting, and a larger portion of the variance is explained by variables omitted from the present (theoretically developed) model. Furthermore, the present investigation is confined to three variables, that are, the profitability, leverage and the sustainability committee, thus, ignoring many other variables which might have an impact on the quality of sustainability reporting such as size of the company, the corporate governance mechanism, institutional ownership, the pressure from the stakeholders as well as the performance of the company on environmental issues. Hence, it is their recommendation that further research be conducted considering more variables, and possibly a larger and more varied sample so that more general and comprehensive findings could be drawn about the determinants of high quality corporate sustainability reporting.

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