Governance Attributes and Political Connections in Sustainability Reporting and Financial Performance

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Abstract

Purpose: *This study examines the effects of Audit Committee Financial Expertise, Institutional Ownership, and Political Connections on Sustainability Reporting and Financial Performance. It addresses the limited understanding of whether governance mechanisms operate consistently across sustainability disclosure and financial outcomes in listed companies.*

Methodology/approach: *This study uses a quantitative approach with 90 firm-year observations from 18 companies listed on the Indonesia Stock Exchange during 2019–2023. The sample was selected through purposive sampling. Sustainability Reporting is measured using the Bloomberg ESG Disclosure Score, while Financial Performance is proxied by return on assets (ROA). The proposed relationships are tested using multiple linear regression analysis with SPSS.*

Findings: *Audit Committee Financial Expertise positively affects Sustainability Reporting, while Institutional Ownership has no significant effect and Political Connections negatively affect it. For Financial Performance, only Institutional Ownership has a positive and significant effect.*

Practical implications: *Companies should align governance mechanisms with specific organizational objectives. Strengthening audit committee financial expertise may support sustainability disclosure, while institutional ownership may contribute to financial monitoring and performance. Political connections should be managed transparently.improve sustainability disclosure or financial performance.*

Originality/value: *This study contributes to the corporate governance literature by simultaneously examining the effects of three governance mechanisms on sustainability disclosure and financial performance in Indonesian listed companies, showing that their effects differ across performance dimensions.*

Keywords:
Audit Commite Financial Expertise; Ownership Institutional; Political Connection; Sustainability Reporting; Financial Performance.

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INTRODUCTION

Global economic integration has altered how companies compete, communicate, and sustain their operations. Rapid technological change, broader market participation, and increasing competitive pressure require firms to strengthen their internal capabilities while maintaining effective governance systems (Sari, 2021). In this environment, corporate reporting has become increasingly important because stakeholders no longer rely solely on financial information. Financial statements provide information about corporate performance, whereas Sustainability Reporting communicates broader economic, environmental, and social responsibilities (Aprianti et al., 2022). Investors increasingly consider both current financial returns and a firm's capacity to create sustainable long-term value, making sustainability information an important component of investment assessment (Adriyanti et al., 2023). At the same time, differences between managerial and shareholder interests may generate agency conflicts that affect both corporate reporting and organizational performance (Putranto et al., 2022).

Indonesia provides a relevant setting for examining these issues because sustainability disclosure has shifted from a largely voluntary practice toward a regulatory obligation. Reporting requirements for financial institutions and listed companies were introduced in 2019 and 2020, although full implementation was delayed until 2021 because of the COVID-19 disruption. Following implementation, approximately 88% of companies had issued sustainability reports. However, the increasing number of published reports did not necessarily indicate equally strong sustainability practices. Only 54% of companies disclosed specific approaches for addressing stakeholder concerns, approximately 70% explained their stakeholder engagement processes, and the proportion of companies reporting sustainability training for directors or managers increased only from approximately 24% in 2021 to 36% in 2022 (Indonesia, 2023). By 2023, nearly 97% of companies recorded by the Indonesia Stock Exchange had undertaken sustainability reporting, following an approximately sixteen-fold increase in reporting over the preceding years (Waluyo, 2024). These developments indicate that the central issue is no longer merely whether companies publish sustainability reports, but rather which governance mechanisms are associated with the extent of sustainability disclosure and whether those mechanisms also contribute to Financial Performance.

Corporate governance is particularly relevant because effective governance can constrain managerial self-interest, improve accountability, and support organizational performance (Nuraina & Soewarno, 2022). Its role is also important in business activities related to natural resources, where companies are increasingly expected to implement cleaner, safer, and more sustainable operating practices (Kompas.com, 2024). However, governance mechanisms do not necessarily operate through the same channels. Audit Committee Financial Expertise represents an internal

monitoring mechanism, Institutional Ownership reflects external shareholder monitoring, whereas Political Connections represent a form of external relational or resource access that may simultaneously generate governance benefits and risks. Examining these three mechanisms together is therefore important because their effects may differ depending on whether the organizational outcome concerns Sustainability Reporting or Financial Performance.

Audit Committee Financial Expertise is expected to strengthen internal oversight because financially knowledgeable committee members are better able to evaluate reporting processes, question managerial judgments, and assess both financial and non-financial information (Harymawan et al., 2022) (Narullia et al., 2024). Such expertise may improve Sustainability Reporting by strengthening the committee's ability to supervise sustainability-related information, while it may also influence Financial Performance through better monitoring of operational risks, reporting quality, and managerial decisions (Altin, 2024); (Farida et al., 2020). Nevertheless, empirical findings remain inconsistent. (Aprianti et al., 2022) found that audit committee characteristics, including financial expertise, were associated with sustainability disclosure, whereas (Narullia et al., 2024) reported that financial expertise did not determine Sustainability Reporting. Similarly, although (Altin, 2024) identified a relationship between Audit Committee Financial Expertise and Financial Performance, such a relationship may depend on whether expertise is accompanied by effective involvement in corporate oversight.

Institutional Ownership represents another governance mechanism because institutional shareholders generally possess substantial investment exposure, voting rights, and stronger monitoring capacity than dispersed individual shareholders (Alomran & Alsahali, 2023). Institutional investors may encourage management to provide more transparent sustainability information and to consider broader stakeholder interests when incomplete disclosure could affect corporate reputation or investment value (Rahmat, 2022); (Roviqoh & Khafid, 2021). However, empirical evidence remains divided. (Aulia Indy et al., 2022) found that Institutional Ownership was associated with Sustainability Reporting, whereas (Madani & Gayatri, 2021) found no statistically significant relationship. Similar inconsistencies are found in relation to Financial Performance. Institutional monitoring may constrain opportunistic managerial behavior and encourage more efficient use of corporate resources (Wardhani & Suwarno, 2021), but while (Hartati, 2020) reported a significant relationship, (Partiwi & Herawati, 2022) found that institutional ownership did not significantly affect financial outcomes.

Political Connections create a different governance dynamic because they may provide firms with access to information, regulatory channels, government support, or other strategic resources while simultaneously exposing companies to greater public and regulatory scrutiny (Muliawati & Hariyati, 2021); (Wallad & Darniaty, 2023). Political affiliation may therefore influence

Sustainability Reporting as companies attempt to maintain legitimacy and demonstrate accountability. However, previous results are also inconsistent. (Sutawan & Sisdyani, 2022) found an association between Political Connections and Sustainability Reporting, whereas (Nuraina & Soewarno, 2022) reported no significant relationship. Political Connections may also influence Financial Performance by providing access to tax concessions, subsidies, market opportunities, regulatory information, and strategic facilities (Hadiputra & Windijarto, 2023). Nevertheless, such benefits may be offset when political interests interfere with commercial priorities (Rahmawati et al., 2022). (Sirait, 2021) identified a significant relationship between Political Connections and Financial Performance, whereas (Rahmawati et al., 2022) reported a negative effect. These inconsistencies indicate that political affiliation cannot automatically be regarded as either beneficial or detrimental; its consequences may depend on how political relationships are governed and utilized.

The inconsistencies in previous findings reveal an important literature gap. Existing studies have generally examined individual governance mechanisms in relation to either sustainability disclosure or Financial Performance, and their findings have not produced a consistent explanation regarding whether internal monitoring expertise, external ownership monitoring, and Political Connections operate similarly across different organizational outcomes. Consequently, it remains unclear whether a governance mechanism that strengthens Sustainability Reporting also improves Financial Performance, or whether each mechanism produces outcome-specific effects. This distinction is important because governance mechanisms that enhance disclosure transparency may not necessarily generate immediate financial benefits, while mechanisms that improve access to economic resources may not necessarily strengthen corporate sustainability disclosure.

This unresolved issue also creates a theoretical gap. Agency Theory suggests that governance mechanisms such as audit committees and institutional shareholders can reduce information asymmetry and constrain managerial opportunism by strengthening monitoring (Aprianti et al., 2022) (Wardhani & Suwarno, 2021). However, Agency Theory alone does not fully explain why Political Connections may simultaneously provide resources and generate conflicting interests. Political relationships may involve different objectives between managers, shareholders, and political actors (Pratiwi, 2024). Legitimacy Theory therefore complements Agency Theory by explaining why companies may use sustainability disclosure to maintain social acceptance and demonstrate consistency with broader environmental and social expectations (Sumiati et al., 2025). Integrating these perspectives enables the study to distinguish governance mechanisms that primarily operate through monitoring from those that operate through legitimacy and external relationships.

Accordingly, this study examines whether Audit Committee Financial Expertise, Institutional

Ownership, and Political Connections have different effects on Sustainability Reporting and Financial Performance among companies listed on the Indonesia Stock Exchange during 2019–2023. Financial Performance is represented by return on assets, which reflects the firm's ability to generate earnings from the assets under its control (Partiwi & Herawati, 2022). Reliable financial and sustainability information is essential because stakeholders depend on such information to evaluate current corporate conditions and future organizational prospects (Holly & Lukman, 2021). Sustainability Reporting may additionally support regulatory compliance, reputation, and stakeholder evaluation of corporate performance (Oncioiu et al., 2020).

This study contributes to the literature in three ways. First, it simultaneously examines three conceptually different governance mechanisms—Audit Committee Financial Expertise, Institutional Ownership, and Political Connections—thereby integrating internal monitoring, external ownership monitoring, and external political relationships within a single analytical framework. Second, it evaluates these governance mechanisms across two distinct organizational outcomes, Sustainability Reporting and Financial Performance, allowing the study to determine whether governance mechanisms operate uniformly or produce outcome-specific effects. Third, by examining listed companies in Indonesia during 2019–2023, the study provides empirical evidence from a regulatory environment in which sustainability reporting has undergone rapid transition from voluntary toward mandatory disclosure. In doing so, the study extends previous research by (Aprianti et al., 2022) and (Zaman et al., 2021) and clarifies how different governance mechanisms may perform distinct roles in shaping corporate disclosure and financial outcomes.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Effect of Audit Committee Financial Expertise on Sustainability Reporting

The audit committee plays an important role in overseeing the reliability and quality of both financial and non-financial disclosures. Effective oversight requires committee members with knowledge and competencies that are relevant to their supervisory responsibilities (Zaman et al., 2021). From an Agency Theory perspective, greater financial expertise strengthens the audit committee's ability to evaluate reporting processes, internal controls, and managerial judgments, thereby reducing information asymmetry between management and shareholders. Conversely, limited financial competence may increase reliance on external auditors and weaken the committee's capacity to critically assess sustainability-related disclosures (Narullia et al., 2024).

The empirical evidence, however, remains inconclusive. (Aprianti et al., 2022) found that audit committee characteristics, including financial expertise, influence sustainability disclosure, while (Narullia et al., 2024) reported that financial expertise does not determine Sustainability Reporting. These differences suggest that financial expertise may be effective only when it is supported by

sufficient authority, access to information, and active involvement in the reporting process. Thus, the influence of Audit Committee Financial Expertise may depend not merely on the presence of technically qualified members, but on whether their expertise is effectively exercised in corporate oversight. Based on this theoretical reasoning and prior evidence, the following hypothesis is proposed:

H1: Audit Committee Financial Expertise has a positive effect on Sustainability Reporting.

The Effect of Institutional Ownership on Sustainability Reporting

Institutional Ownership refers to equity ownership by professional organizations such as banks, insurance companies, pension funds, and asset-management institutions (Madani & Gayatri, 2021). Because institutional investors generally hold substantial ownership stakes and voting rights, they are better positioned to monitor managerial behavior and influence corporate disclosure policies (Yunan et al., 2021). Their financial exposure creates incentives to reduce information asymmetry and demand more transparent reporting, particularly when incomplete disclosure may increase investment risk.

From an Agency Theory perspective, Sustainability Reporting can serve as a mechanism for narrowing the information gap between management and shareholders (Roviqoh & Khafid, 2021). Institutional investors may therefore use their ownership power to encourage broader and more credible sustainability disclosure. However, previous findings are mixed. (Aulia Indy et al., 2022) found that Institutional Ownership was associated with stronger Sustainability Reporting, whereas (Madani & Gayatri, 2021) found no statistically significant relationship. These inconsistencies may arise because institutional investors differ in their investment horizons and priorities. Some may emphasize long-term sustainability risks, while others may focus primarily on short-term financial returns. Therefore, the effectiveness of Institutional Ownership in encouraging Sustainability Reporting may depend on the extent to which institutional investors actively exercise their monitoring role. Accordingly, the following hypothesis is proposed:

H2: Institutional Ownership has a positive effect on Sustainability Reporting.

The Effect of Political Connections on Sustainability Reporting

Political Connections arise when directors, commissioners, shareholders, or other influential corporate actors maintain relationships with political figures or government institutions. Such relationships may generate both advantages and governance risks. On one hand, Political Connections may reduce external pressure for transparency because firms can obtain access to political support, information, or regulatory advantages (Wallad & Darniaty, 2023). On the other

hand, politically connected firms may attract greater public scrutiny, increasing the need to demonstrate accountability through sustainability disclosure.

Legitimacy Theory provides the basis for expecting a positive relationship. Firms with Political Connections may use Sustainability Reporting as a means of demonstrating alignment with social expectations and preserving organizational legitimacy (Muliawati & Hariyati, 2021). This argument is supported by (Sutawan & Sisdyani, 2022), who found that Political Connections were positively associated with Sustainability Reporting. However, the relationship is not necessarily uniform because political access can also reduce incentives for transparency when firms rely more on political support than on public accountability. This dual mechanism explains why previous studies have produced inconsistent results and suggests that the effect of Political Connections depends on whether legitimacy pressures outweigh the private benefits obtained from political access. Based on the legitimacy argument and prior empirical evidence, the following hypothesis is formulated:

H3: Political Connections have a positive effect on Sustainability Reporting.

The Effect of Audit Committee Financial Expertise on Financial Performance

Financial expertise strengthens the audit committee's capacity to identify audit risk, evaluate internal-control policies, and assess conditions that may affect organizational performance (Oduor et al., 2022). Members with appropriate financial backgrounds are also better equipped to resolve reporting issues and assess the economic consequences of managerial decisions (Maina & Oluoch, 2018).

From an Agency Theory perspective, stronger audit committee competence can reduce information asymmetry and limit opportunistic managerial behavior. Effective monitoring may improve the credibility of financial reporting and support more efficient corporate decision-making (Al-ahdal & Hashim, 2021). Nevertheless, financial expertise does not automatically translate into better performance if committee members lack authority or meaningful involvement in decision-making. This may explain why the effectiveness of audit committee expertise varies across firms. Prior evidence nevertheless identifies a significant relationship between audit committee financial expertise and Financial Performance (Oduor et al., 2022). Therefore, the following hypothesis is proposed:

H4: Audit Committee Financial Expertise has a positive effect on Financial Performance.

The Effect of Institutional Ownership on Financial Performance

Institutional investors may function as external governance agents by monitoring managerial actions and intervening when agency conflicts arise (Aman & Jaafar, 2020). Their ownership

concentration, access to information, and voting power can strengthen managerial discipline and encourage more efficient resource allocation. As their ownership stake increases, institutional investors have stronger incentives to protect investment value and monitor corporate decisions more closely (Zaman et al., 2021).

This monitoring role may improve Financial Performance by reducing managerial opportunism and promoting more efficient use of corporate resources (Maryanti & Dianawati, 2024). Institutional investors may also enhance transparency and accountability, thereby reducing opportunities for managerial misconduct (Utami Eryadi et al., 2021). However, empirical findings remain mixed. (Hartati, 2020) found a relationship between Institutional Ownership and Financial Performance, whereas other studies reported insignificant effects. These differences may reflect the degree of investor activism, since institutional ownership may have limited influence when investors remain passive. Accordingly, the following hypothesis is proposed:

H5: Institutional Ownership has a positive effect on Financial Performance.

The Effect of Political Connections on Financial Performance

Political Connections may provide firms with access to financing, regulatory information, government support, and strategic facilities that are not equally available to unconnected firms (Sirait, 2021). From an Agency Theory perspective, such relationships may create economic benefits when the interests of managers, shareholders, and political actors are aligned. However, political relationships may also create agency conflicts when political objectives interfere with commercial priorities.

The economic value of Political Connections therefore depends on how effectively firms convert politically derived opportunities into productive corporate resources. When these opportunities are poorly managed, Political Connections may generate inefficiency rather than improve Financial Performance (Rahmawati et al., 2022). Evidence of lower investment returns among politically affiliated firms further suggests that political ties can become a burden when political considerations outweigh commercial objectives (Tarmizi & Brahmana, 2022). Nevertheless, (Tapang, 2023) reported a significant relationship between Political Connections and Financial Performance. These conflicting findings indicate that the effect of Political Connections is contingent on managerial capability and the governance of political relationships. Given their potential strategic benefits, the following hypothesis is proposed:

H6: Political Connections have a positive effect on Financial Performance.

Conceptual Framework

Figure 1 summarizes the relationships developed from the preceding theoretical

arguments. The framework positions Audit Committee Financial Expertise, Institutional Ownership, and Political Connections as explanatory variables for both Sustainability Reporting and Financial Performance. Each governance mechanism is expected to operate through a distinct monitoring or resource-based pathway, allowing their effects on disclosure and financial outcomes to be examined simultaneously.

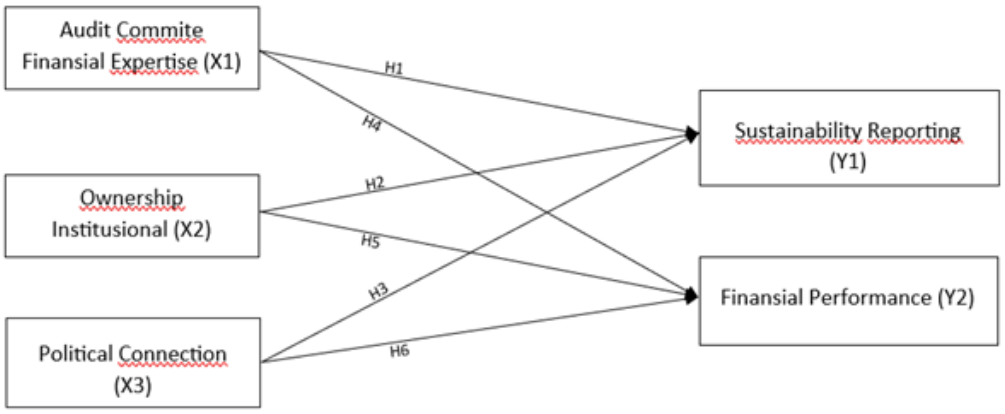


Figure 1. Conceptual Framework

METHOD

Research Design

This study adopts a quantitative research design to examine the effects of Audit Committee Financial Expertise (X1), Institutional Ownership (X2), and Political Connections (X3) on Sustainability Reporting (Y1) and Financial Performance (Y2). The quantitative approach is applied to empirically evaluate the proposed relationships among the research variables.

Data Sources and Types

The analysis relies on secondary data obtained from publicly available corporate documents. The required information was collected from the annual reports and sustainability reports of companies listed on the Indonesia Stock Exchange during the 2019–2023 period. These reports were accessed through the official Indonesia Stock Exchange website at www.idx.co.id.

Population and Sample

The sample was selected using a purposive sampling technique based on predetermined eligibility requirements. The stages of the sampling process, including the exclusion criteria and final number of observations, are summarized in Table 1.

Table 1. Sample Selection Criteria

No	*Criteria*	*Amount*

All Companies listed on the Indonesia Stock Exchange from 2019 – 2023		938
1	Companies that prepared annual reports in the years 2019 – 2023	(330)
2	Companies that used the rupiah currency in 2019 – 2023	(85)
3	Companies that implement sustainability reports from 2019 – 2023	(461)
4	Companies that published ESG score disclosures on Bloomberg from 2019 - 2023	(44)
Number of Companies		18
Number of Research Year		5
Sample Size		90

Operational Definitions of Variables

This study employs three independent variables: Audit Committee Financial Expertise, Institutional Ownership, and Political Connections. Sustainability Reporting and Financial Performance are specified as the dependent variables. The definitions, measurement indicators, and operationalization of each construct are summarized in Table 2.

Table 2. Indicator Variable

Variable	***Definition***	***Indicator***
Sustainability Reporting	Sustainability Reporting represents the extent to which a company transparently discloses information concerning its environmental, social, and governance activities and performance. Source : (Alsayegh et al., 2020) and (Hassanein et al., 2024)	Sustainability Reporting is proxied by the Bloomberg ESG Disclosure Score, which measures the extent of corporate transparency in environmental, social, and governance disclosure. A higher score indicates a higher level of ESG disclosure. The use of the Bloomberg ESG Disclosure Score Source : (Alsayegh et al., 2020) and (Hassanein et al., 2024)
Financial Performance	Financial performance is a depiction of financial condition by analyzing financial statements measured with financial ratios, allowing the financial condition to be known for a specific period.	$\text{ROA} = \frac{\text{Net Profit}}{Total\ Aset} \times 100\%$ Source: (Holly & Lukman, 2021) and (Hartati, 2020)
Financial Expertise of the Audit Committee	The financial expertise of the audit committee is an important factor in ensuring effective oversight of financial practices and corporate governance.	$\frac{\sum Number\ of\ Financial\ Expertise\ Members}{\sum Number\ of\ Audit\ Commite\ Members}$ Sumber : (Handoko & Ramadhani, 2017)
Institutional ownership	Institutional ownership refers to a company owned by institutions or	

	professional entities such as banks, investment firms, and other financial and non-financial institutions. Source : (Rahmat, 2022)	$\frac{\sum Number\ of\ Institusional\ Shares}{\sum Number\ of\ Institusional\ Shares} \times 100\%$ Source: (Rahmat, 2022) dan (Holly & Lukman, 2021)
Political Connection	Political connection is a condition where there is a relationship between certain parties and parties with political interests. Source : (Wallad & Darniaty, 2023)	$\frac{\sum Number\ of\ Institusional\ Shares}{\sum Total\ Number\ of\ Shares}$ Source : (Sirait, 2021)

Analysis Technique

This study uses multiple linear regression analysis to examine the effects of Audit Committee Financial Expertise, Institutional Ownership, and Political Connections on Sustainability Reporting and Financial Performance. Multiple linear regression is selected because the study examines the effects of more than one independent variable on continuous dependent variables. Sustainability Reporting is measured using the Bloomberg ESG Disclosure Score, while Financial Performance is measured using Return on Assets (ROA). Accordingly, two separate regression models are estimated, with Sustainability Reporting and Financial Performance serving as the dependent variables in each model.

Prior to hypothesis testing, descriptive statistics and classical assumption tests are conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The regression analyses are performed using SPSS.

$Y1 = a1 + \beta1X1 + \beta2X2 + \beta3X3 + e$..... (1)

$Y2 = a2 + \beta1X1 + \beta2X2 + \beta3X3 + e$..... (2)

Description:

Y1 = Sustainability report

Y2 = Financial Performance

α1 = Constant 1

α2 = Constant 2

X1 = Audit Committee Financial Expertise

X2 = Institusional Ownership

X3 = Political Connection

β1, β2, and β3 = Regression Coefficient

e = Standard error

Hypothesis Testing

Hypothesis testing is conducted using the partial t-test at a significance level of 5% (α = 0.05). A relationship is considered statistically significant when the p-value is less than 0.05. For directional hypotheses, hypothesis support is determined not only by statistical significance but also by whether the sign of the regression coefficient is consistent with the hypothesized direction. Therefore, a hypothesis proposing a positive effect is supported when the coefficient is positive and statistically significant. If the coefficient is statistically insignificant or statistically significant but has a direction opposite to that hypothesized, the hypothesis is rejected (Sonny Nugroho et al., 2022).

RESULTS AND DISCUSSION

Descriptive Statistic

Descriptive statistics are statistics used to analyze data, numbers that produce a clear picture can be presented in the form of a table containing minimum, maximum, mean and standard deviation.

Table 3. Descriptive Statictic Sustainability reporting (Y1) and Financial performance (Y2)

Variabel	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Audit Committee Financial Expertise (X1)	90	0	1	0.54	0.205
Ownership Institutional (X2)	90	0	98	49.47	24.479
Political Connection (X3)	90	0	15	0.41	1.709
Sustainability Reporting (Y1)	90	18	68	48.96	10.399
Financial Performance (Y2)	90	1	45	9.16	9.650
Valid N (listwise)	90				

Source: data processed, 2025

Based on the calculations in table 3, it is known that the number of samples in this study were 90 samples. The financial expertise of the audit committee in the company sample has a minimum value of 0 and a maximum value of 1. For a standard deviation of 0.205 and an average of 0.54 which indicates that the average is greater than the deviation value which means that the data distribution does not spread and does not vary. Institutional ownership shows that the minimum value is 0 and the maximum value is 98, the value of the standard deviation is 24.479 and the average value is 49.47 so that the average value is greater than the deviation value which means that the data results are less varied or not spread evenly. Political Connection in the sample minimum value is 0 and the maximum value is 15. For the standard deviation of 1,709 and the company has an average of 0.41, which means that the deviation value results are higher than

the average value, which means that the distribution of data is quite varied. The sustainability report has a minimum value of 18 and a maximum value of 0.68 with a standard deviation of 10,399 and an average value of 48.96, which means that the deviation value is smaller than the average, which means that the data distribution is still not evenly distributed. financial performance has a minimum value of 1 while the maximum value is 45 and for the standard deviation value of 9,650 and an average value of 9.16 which can be interpreted that the deviation value is higher than the average so that the results of data distribution are broad and evenly distributed.

Normality Test

The normality test aims to test the residual value in a normally distributed regression model. This study applies the Kolmogorov-Smirnov stochastic test in order to determine whether the residual value is normally distributed or not seen with the probability value Asymp. Sig> 0.05 then the residual value is said to be normal. The results of the Normaltas Test measurement can be generated from the table as follows:

Table 4. One Sample Kolmogoroov-smirnov Test (Y1)

		Unstandardized Residual
N		90
Normal Parametersa,b	Mean	.0000000
	Std. Deviation	9.31630984
Most Extreme Differences	Absolute	.067
	Positive	.044
	Negative	-.067
Test Statistic		.067
Asymp. Sig. (2-tailed)		.200c,d

Dependent Sustainablity Reporting (Y1)
Source: data processed, 2025

Table 5. One Sample Kolmogoroov-smirnov Test (Y2)

		Unstandardized Residual
N		90
Normal Parametersa,b	Mean	.0000000
	Std. Deviation	.43773789
Most Extreme Differences	Absolute	.081
	Positive	.078

	Negative	-.081
Test Statistic		.081
Asymp. Sig. (2-tailed)		.199c

Dependent Financial Performance (Y2)
Source: data processed, 2025

Based on tables 4 and 5, the sustainability report (Y1) shows that the value of the Kolmogorov-Smirnov statistic on Y1 is 0.067 while the results of the Normality Test obtained Asymp. Sig. (2-tailed) on the sustainability report (Y1) 0.200> 0.05, where the regression equation in this study is normally distributed. In table 6, the financial report (Y2) has a Kolmogorov-Smirnov statistical value of 0.081. Based on the results of the normality test, Asymp. Sig. (2-tailde) 0.199> 0.05, which means that the regression equation in this study is normally distributed(Nurhaswinda et al., 2025).

Multicollinearity Test

The multicollinearity test aims to identify whether there is a correlation between the dependent and independent variables in the regression model. The results of the test are presented in the following table:

Table 5. Multicollinearity Test (Y1)

Coefficientsa

Model		***Collinearity Statistics***	
		Tolerance	***VIF***
1	Audit Commite Financial Expertise (X1)	.981	1.019
	Ownership Institutional (X2)	.981	1.020
	Political Connection (X3)	.995	1.005

Dependent Sustainablity Reporting (Y1)
Source: data processed, 2025

Table 6. Multicollinearity Test (Y2)

Coefficientsa

Model		***Collinearity Statistics***	
		Tolerance	***VIF***
1	Audit Commite Financial Expertise (X1)	.981	1.019
	Ownership Institutional (X2)	.981	1.020
	Political Connection (X3)	.995	1.005

Dependent Financial Performance (Y2)
Source: data processed, 2025

The Multicollinearity Test shows the value of the variable inflation factor (VIF) of the audit committee's financial expertise of 1.019, institutional ownership of 1.020 and political connections of 1.005 which means the value of the independent variable> 10, thus, it can be explained if there is no multicollinearity between variables in the regression model (Maotama & Astika, 2020).

Heteroscedasticity Test

The heteroscedasticity test is carried out to determine whether there are differences in residual variations between one observation and another in the regression model. The results of heteroscedasticity testing are presented in Figure 2 and Figure 3 as follows:

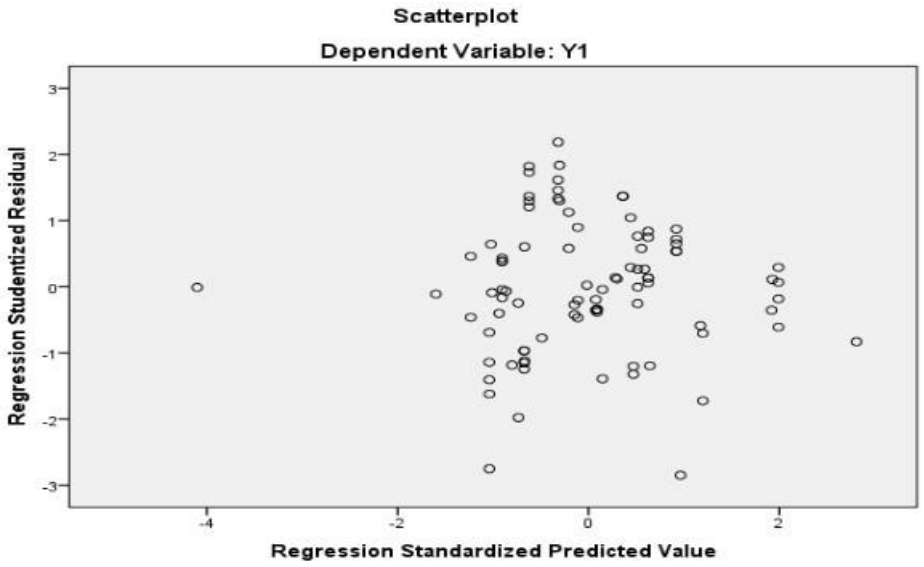


Figure 2. Heteroscedasticity of sustainability report (Y1)

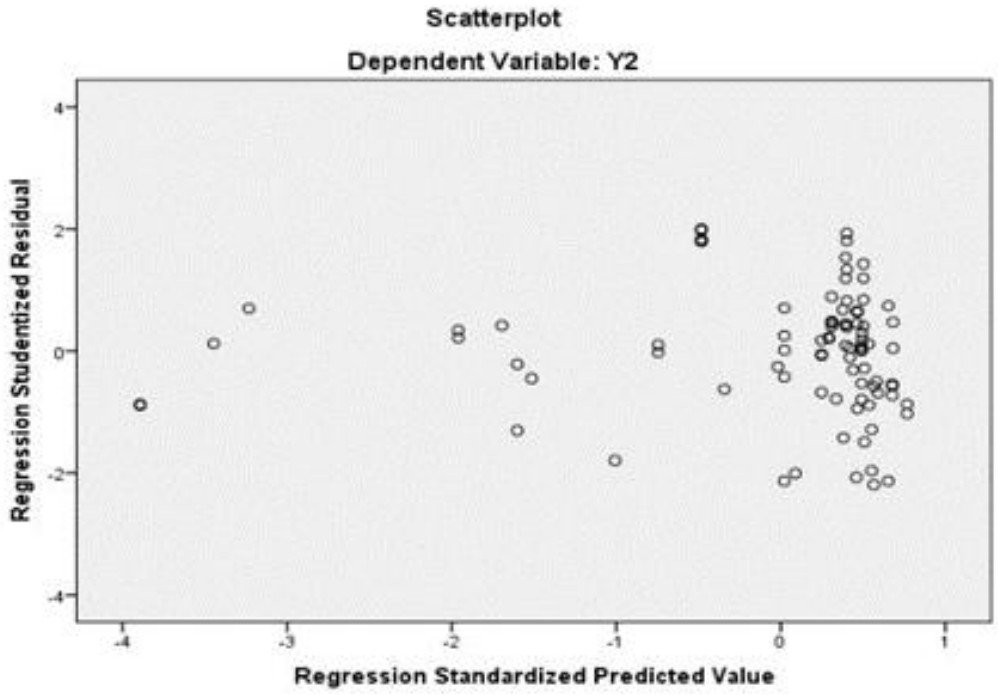


Figure 3. Heteroscedasticity of Financial Performance (Y2)

Autocorrelation Test

The autocorrelation test aims to identify the relationship between the residual value in the current period and the residual value in the previous period. The results of the autocorrelation test can be seen in the table as follows:

Table 8. Autocorrelation of Sustainability report (Y1)

Model Summaryb

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	.713a	.508	.485	7.460	1.865

a. Predictors: (Constant), Y1, X2, X3, X1

b. Dependent Variable: Y1

Source: data processed, 2025

Based on table 8, it can be seen that the durbin-watson value in the sustainability report (Y1) is 1.865. In the regression equation, there is no autocorrelation if the durbin-watson value in this study is between -2 to +2 (Holly & Lukman, 2021).

Table 9. Autocorrelation Financial performance (Y2)

Model Summaryb

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	.651a	.424	.397	.35980	1.986

a. Predictors: (Constant), X3, X2, X1

b. Dependent Variable: Y2

Source: data processed, 2025

Based on table 9, it can be seen that the durbin-watson value of the financial performance variable (Y2) is 1.986. A durbin-watson value below -2 means there is positive autocorrelation, between -2 and +2 means there is no autocorrelation and above +2 means there is negative autocorrelation. Table 4 shows negative autocorrelation (Moniaga, 2013).

R-Test

purpose of the adjusted r-squared test is to determine the results of the effect value of the dependent and independent variables, the results of the adjusted r-squared are presented in this study in the table as follows:

Table 10. R test Sustainability report (Y1)

Model Summaryb

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*

1	.713a	.508	.485	7.460

a. Predictors: (Constant), Y1, X2, X3, X1

b. Dependent Variable: Y1

Source: data processed, 2025

The adjusted r-squared value in table 10 for Y1 obtained a value of 0.508 or 50.8%, thus it can be concluded that the variables of audit committee financial expertise, institutional ownership and political connections on sustainability reporting as the dependent variable are 50.8% for the remaining 49.2% explained by independent variables not included in the model.

Table 11. R test Financial performance (Y2)

Model Summaryb

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.651a	.424	.397	35980

a. Predictors: (Constant), X3, X2, X1

b. Dependent Variable: Y2

Source: data processed, 2025

The adjusted r-squared value in table 11 for Y1 obtained a value of 0.424 or 42.4%, this indicates that the ability of the audit committee financial expertise variable, institutional ownership, and political connections to the dependent variable of financial performance is 42.4% for the remaining 57.6 explained by independent variables not included in the model.

T-Test

The T test is conducted to determine whether there is a partial influence between the independent variable and the dependent variable. The results of the t test calculation are shown in the table below:

Table 12. : T-test of sustainability report (Y1)

Coefficientsa

Model		*Unstandardized Coefficients*		*Standardized Coefficients*			
		B	*Std. Error*	*Beta*	*t*	*Sig.*	*Description*
1	(Constant)	42.808	3.334		12.840	.000	
	Audit Committee Financial Expertise (X1)	19.128	4.939	.378	3.873	.000	Accepted
	Institutional ownership (X2)	-.074	.042	-.174	-1.781	.078	Rejected

	Political Connection (X3)	-1.452	.592	-.239	-2.454	.016	Accepted

a. Dependent Variable: Sustainability report Y1

Source: data processed, 2025

The results of table 12, namely Y1 sustainability reports, show that the financial expertise of the audit committee and political connections have a value of <0.05, so these variables have an effect on sustainability reports. Meanwhile, institutional ownership has a value> 0.05, so this variable has no influence on sustainability reports.

Table 13. T test Financial performance (Y2)

Coefficientsa

	Model	***Unstandardized Coefficients***		***Standardized Coefficients***	***t***	***Sig.***	***Description***
		B	***Std. Error***	***Beta***			
1	(Constant)	.447	.160		2.792	.006	
	Audit Committee Financial Expertise (X1)	.040	.232	.018	.171	.865	Rejected
	Institutional ownership (X2)	.194	.069	.288	2.801	.006	Accepted
	Political Connection (X3)	-.037	.028	-.135	-1.324	.189	Rejected

a. Dependent Variable: Financial performance Y2

Source: data processed, 2025

From the results of table 13, namely Y2 financial performance, it can be seen that the financial expertise of the audit committee and political connections have a value> 0.05, so these variables are stated to have no effect on financial performance. While institutional ownership has a value <0.05, so the variable has an influence on financial performance.

Linear Regression Test

Based on the table n (t test) and n (t test) several multiple linear regression calculations using the SPSS 27 program can be generated as follows:

Y1 = 42.808 + 19.128 X1 – 0,074 X2 – 1.452 X3

The constant of 42,808 means that if the audit committee's financial expertise (X1), institutional ownership (X2), and political connections (X3) are 0, so the value of the sustainability report (Y1) is 42,808 Variable regression coefficient (X1) is 19,128 if the other independent variables have the same value and the audit committee's financial expertise (X1) has increased, the sustainability report (Y1) will increase by 19,128. The positive coefficient means that there is a positive relationship between the financial expertise of the audit committee (X1) and the

sustainability report (Y1), the lower the financial expertise of the audit committee (X1), the lower the sustainability report (Y1). The regression coefficient of the institutional ownership variable (X2) -0.074 means that if the other independent variables remain the same and institutional ownership (X2) increases, the sustainability report (Y1) will decrease to -0.074 the coefficient is negative, so there is a negative relationship between institutional ownership (X2) and the sustainability report (Y1) the more institutional ownership increases, the more the sustainability report decreases. The coefficient of political connection (X3) is -1.452 if the other independent variables have the same value and political connection (X3) increases, the sustainability report (Y1) will decrease by -1.452. The negative coefficient means that there is a negative relationship between political connections (X3) and sustainability reports (Y1), the more political connections increase, the lower the sustainability report.

$$Y2 = 0{,}447 + 0{,}040\ X1 + 0{,}194\ X2 - 0{,}037\ X3$$

The constant is 0.447, meaning that if the audit committee's financial expertise (X1), institutional ownership (X2), and political connections (X3) are 0, the financial performance (Y2) value is 0.447 variable regression coefficient (X1) of 0.040 if the other independent variables are fixed and the audit committee's financial expertise (X1) increases, the financial performance (Y2) will increase by 0.040. The positive coefficient means that there is a positive relationship between the financial expertise of the audit committee (X1) and financial performance (Y2), the more the audit committee's financial expertise (X1) decreases, the lower the financial performance (Y2). The regression coefficient of the institutional ownership variable (X2) of 0.194 means that other independent variables are constant and institutional ownership (X2) has increased, financial performance (Y2) will increase by 0.194. The coefficient with a positive means that there is a positive relationship between institutional ownership (X2) and financial performance (Y2) the more institutional ownership increases, the more financial performance increases. The coefficient of political connection (X3) of -0.037 means that if the other independent variables are constant and political connection (X3) increases, financial performance (Y2) will decrease by -0.037. The negative coefficient means that there is a negative relationship between political connections (X3) and financial performance (Y2), the more the value of political connections the lower the financial performance.

DISCUSSION

Audit Committee Financial Expertise on Sustainability Reporting

The results show that Audit Committee Financial Expertise has a positive and significant effect on Sustainability Reporting, with a significance value of 0.000. Therefore, H1 is supported. This relationship can be explained by the monitoring role of the audit committee. Members with financial and accounting expertise are better able to evaluate reporting processes, identify disclosure

weaknesses, and question management, thereby reducing information asymmetry in line with Agency Theory. This finding is consistent with (Handoko & Ramadhani, 2017) and (Aprianti et al., 2022).

However, the effect may depend on whether audit committee members actively use their expertise in the reporting process. Financial competence alone may not be sufficient when committee members have limited authority, access to information, or involvement in sustainability reporting. This condition may explain why (Narullia et al., 2024) found no significant effect. Thus, financial expertise is more likely to improve Sustainability Reporting when it is supported by active monitoring and effective governance.

Institutional Ownership on Sustainability Reporting

The results show that Institutional Ownership has no significant effect on Sustainability Reporting, with a significance value of 0.078. Therefore, H2 is not supported. This suggests that institutional investors do not always prioritize sustainability disclosure in their monitoring activities and may focus more on financial returns and investment performance. This interpretation is consistent with (Utami Eryadi et al., 2021), (Sutawan & Sisdyani, 2022), (Madani & Gayatri, 2021), and (Roviqoh & Khafid, 2021).

The effect may depend on the orientation and involvement of institutional investors. Long-term and active investors may place greater emphasis on ESG disclosure, while passive or financially oriented investors may exert limited pressure on management to improve Sustainability Reporting. This may explain why (Aulia Indy et al., 2022) found a significant relationship. Therefore, ownership proportion alone may not be sufficient unless it is accompanied by active sustainability-oriented monitoring.

Political Connections to Sustainability Reporting

The results show that Political Connections have a significant negative effect on Sustainability Reporting, with a coefficient of -1.452 and a significance value of 0.016. Therefore, H3 is rejected because the direction of the effect is opposite to the proposed positive relationship. One possible explanation is that politically connected firms may rely more on political access and institutional support than on public disclosure to maintain legitimacy, thereby reducing the pressure to provide extensive sustainability information.

This finding suggests that the effect of Political Connections depends on whether political ties increase public scrutiny or instead reduce external pressure for transparency. The result differs from (Muliawati & Hariyati, 2021) and (Sutawan & Sisdyani, 2022), who emphasized a positive legitimacy effect, and from (Nuraina & Soewarno, 2022), who found no significant relationship. These differences may reflect variations in the strength of political connections, governance

practices, and firms' dependence on political support.

Audit Committee Financial Expertise on Financial Performance

The results show that Audit Committee Financial Expertise has no significant effect on Financial Performance, with a significance value of 0.865. Therefore, H4 is not supported. This finding indicates that financial expertise within the audit committee does not automatically translate into higher financial performance because the audit committee primarily performs a supervisory role rather than directly managing operational or revenue-generating activities. In practice, the effectiveness of the audit committee may also be limited when its existence is more formal than substantive, or when supervision over financial reporting is not sufficiently strong (Altin, 2024).

The effect may only emerge when financial expertise is accompanied by sufficient authority, active involvement, and effective monitoring. An increase in the proportion of audit committee members with financial expertise therefore does not necessarily correspond directly with the company's ability to prevent weaknesses or irregularities that may affect financial performance (Handoko & Ramadhani, 2017). This finding is consistent with (Pratiwi, 2024), who also reported that Audit Committee Financial Expertise does not significantly affect Financial Performance. Differences from studies reporting a significant effect may reflect variations in audit committee effectiveness, governance quality, and the extent to which financial expertise is actually utilized in corporate oversight.

Institutional ownership on financial performance

The results show that Institutional Ownership has a positive and significant effect on Financial Performance, with a significance value of 0.006. Therefore, H5 is supported. Institutional shareholders can strengthen monitoring, reduce managerial opportunism, and encourage more efficient use of corporate resources, which is consistent with Agency Theory. This finding also supports (Ningsih, 2021) and (Partiwi & Herawati, 2022).

The effect is more likely to occur when institutional investors hold meaningful ownership stakes and actively exercise their monitoring rights. This may explain why (Rahmawati et al., 2022) found no significant effect in a different setting. Thus, the effectiveness of Institutional Ownership depends not only on the proportion of shares held but also on the intensity of investor involvement in corporate governance.

Political Connection to Financial Performance

The results show that Political Connections have no significant effect on Financial Performance, with a significance value of 0.189. Therefore, H6 is not supported. Although political ties may provide access to information, government networks, or strategic opportunities, these advantages do not automatically improve profitability unless management is able to convert them into

productive resources. This interpretation is consistent with (Pratiwi, 2024) and (Sastie & Sucahyati, 2025).

The relationship may therefore depend on managerial competence, the type of political connection, and the firm's ability to integrate political resources into effective business strategies. This may explain why (Tapang, 2023) found a significant relationship. Political Connections may create potential advantages, but their economic value depends on how effectively those advantages are managed.

CONCLUSION, IMPLICATION AND LIMITATION

Based on the results of the study that the financial expertise of the audit committee has an effect on sustainability reports, because a company must have at least one member who must have a background in finance in order to understand financial reports. institutional ownership has no influence on sustainability reports because institutional ownership is still proven to be ineffective in encouraging management to disclose information related to corporate social responsibility. Political connections have an influence on sustainability reports, if the stronger the political connections in a company, the greater the possibility of an increase in the quality of the sustainability report that the company has made. The financial expertise of the audit committee has no effect on financial performance, because members of the audit committee still pay less attention to how the process of making financial reports and some still do not have the ability in the financial field. Therefore, the results obtained will be less than optimal and the quality of financial reports is not fully effective. This is due to the lack of supervision in the process of submitting information related to financial statements. Institutional ownership affects financial performance, because the few or many shares outstanding in a company will affect financial performance where institutional ownership will continue to supervise management in the company. Institutional ownership can carry out more optimal supervision to reduce the tendency of management to manipulate in making financial reports. Political connections have no effect on financial performance. This shows that company performance is not determined only by the existence of political connections, but is related to the way companies implement company management strategies as the main way to obtain profitability.

This study has several limitations that can affect the results of the study, namely the data used in this study only for a period of 5 years, namely 2019 - 2023 and only uses a sample of 90 companies in all companies listed on the IDX so that the results still do not fully reflect the condition of all companies, because it is far from the number of companies that have been registered. And there are still some companies that have not presented sustainability reports and data in annual reports that are still not presented in full and in detail. Future research is recommended to consider

other variables that have the potential to influence sustainability reports and financial performance such as board characteristics, auditor reputation. Second, future research can strengthen the findings with a qualitative approach such as in-depth interviews to obtain managerial perspectives related to political connections or the role of the audit committee. Third, future researchers can expand the sample both in terms of industrial sector and longer period. By fixing these limitations, future research is expected to produce accurate and relevant findings in academia, business practice and researcher knowledge.

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