Maksimum: Media Akuntansi Universitas Muhammadiyah Semarang, Vol 15 (No.2) 2025, 157-169

https://jurnal.unimus.ac.id/index.php/MAX

Nationally Accredited based on the Decree of the Minister of Higher Education, Science, and Technology of the Republic of Indonesia, Number 0173/C3/DT.05.00/2025

Sustainability Reporting and The Quality of Financial Reports: Analysis of The Role of Ownership Structure in Indonesian Corporations

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Info Article

History Article:
Submitted: January 27, 2025
Revised: April 16, 2025
Accepted: June 20, 2025

Keywords:
Financial Reporting Quality, Institutional Ownership, Sustainability Reporting

Abstract

This study investigates the impact of sustainability reporting on financial reporting quality, with institutional ownership serving as a moderating variable in Indonesian corporations. Using a sample of 55 companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023, this research employs a Moderated Regression Analysis (MRA) approach with panel data analysis. The results indicate that sustainability reporting does not significantly impact financial reporting quality, suggesting that sustainability disclosures in Indonesia remain voluntary and may not directly influence accounting conservatism. Furthermore, institutional ownership weakens the relationship between sustainability reporting and financial reporting quality, suggesting that institutional investors prioritize short-term financial performance over transparency in sustainability reporting. This study provides a deeper understanding of the factors that influence the relationship between sustainability reporting and financial reporting quality in Indonesian listed companies.

JEL Classification: M41, Q56, G32

How to Cite: Nurullah, A., Hamzah, R.S., & Kesuma, N. (2025). Sustainability Reporting and The Quality of Financial Reports: Analysis of The Role of Ownership Structure in Indonesian Corporations. *Maksimum: Media Akuntansi Universitas Muhammadiyah Semarang, 15(2), 157-169.*

DOI: 10.26714/MKI.15.2.2025.157-169

Introduction

The urgency of implementing sustainability reporting in Indonesia has grown significantly in recent years due to increasing demands for corporate accountability and transparency in environmental, social, and governance (ESG) aspects. As global awareness of sustainable development intensifies, stakeholders, including investors, regulators, and the public, expect companies to not only deliver financial returns but also demonstrate responsible practices that support long-term environmental and social well-being (Rosati & Faria, 2019; United Nations, 2015). In response, companies are encouraged to integrate sustainability into their business strategies through Corporate Social and Environmental Responsibility (TJSL) programs that focus on delivering economic, social, environmental, legal, and governance benefits in alignment with the Sustainable Development Goals (SDGs) and ISO 26000 standards.

In Indonesia, sustainability reporting has been regulated by the Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017, which took effect in 2019. This regulation requires listed companies and financial institutions to publish sustainability reports as part of their annual disclosures. However, the implementation of this regulation has been uneven. According to the OJK's Sustainable Finance Roadmap Phase II (2021–2025), by the end of 2022, only 142 out of 820 IDX-listed companies (approximately 17.3%) had published sustainability reports, indicating a considerable compliance gap and raising questions about the consistency and quality of disclosures (OJK, 2022).

Despite regulatory efforts, challenges persist. Earlier data show that in 2016, only 9% of IDX-listed companies had published sustainability reports Farhana and Adelina (2019), reflecting a historical trend of limited engagement in non-financial disclosures. Although sustainability reporting offers significant advantages, such as enhancing corporate transparency, appealing to ethical investors, and supporting long-term value creation, it remains inconsistently practiced. From a theoretical perspective, sustainability reporting is supported by stakeholder theory, legitimacy theory, and signaling theory, wherein firms communicate their ethical practices and align themselves with societal expectations (Pratiwi et al., 2020a; Rahman et al., 2021).

Furthermore, sustainability reports enhance the usefulness of financial reports by providing complementary non-financial information that can influence investor decision-making. The publication of such reports is often associated with increased investor interest, stock performance, and corporate value (Fatchan & Trisnawati, 2018). However, some companies still exhibit weak reporting practices, both financially and non-financially. The financial scandals involving PT Garuda Indonesia (Persero) Tbk and PT Tiga Pilar Sejahtera Food Tbk, for example, highlight the consequences of poor corporate governance and lack of transparency (Susanti, 2019).

A key factor that may influence the effectiveness of sustainability reporting is institutional ownership. Institutional investors demand higher levels of transparency, better corporate governance, and more consistent disclosures, which can strengthen the relationship between sustainability reporting and financial reporting quality. Previous studies suggest that institutional ownership acts as a governance mechanism that encourages management discipline and enhances the credibility of disclosures (Faiqoh & Mauludy, 2019; Garanina & Kim, 2023). Nevertheless, empirical research exploring the moderating role of institutional ownership in this context, particularly within emerging markets such as Indonesia, remains limited.

To fill this gap, this study investigates the moderating effect of institutional ownership on the relationship between sustainability reporting and financial reporting quality among companies listed on the Indonesia Stock Exchange. Financial reporting quality in this context is assessed using accounting conservatism as a proxy for quality. The findings are expected to offer valuable insights for regulators, investors, and corporate stakeholders on how institutional dynamics can enhance corporate transparency and reporting standards in line with sustainable development principles.

Literature Review

Hypothesis Development

The quality of financial reporting is increasingly influenced by the extent and depth of sustainability reporting, as the latter conveys critical information regarding a firm's environmental, social, and governance (ESG) practices. These disclosures provide stakeholders with a more holistic understanding of a firm's operations, which may have material implications for its financial performance (Vitriani & Budiasih, 2019). In contemporary corporate governance, transparency in non-financial performance is a key driver of trust, accountability, and the creation of long-term value.

Drawing on Legitimacy Theory, firms are motivated to conform to societal norms and stakeholder expectations in order to maintain their legitimacy and secure continued access to resources and support (Dowling & Pfeffer, 1975). By disclosing sustainability initiatives, firms demonstrate responsiveness to public concerns, which can enhance stakeholder perceptions and foster a positive corporate image. This, in turn, may lead to improved stakeholder confidence in the credibility of financial statements, thereby contributing to higher financial reporting quality.

Furthermore, the Signaling Theory posits that in the presence of information asymmetry, organizations can use disclosures such as sustainability reporting as signals to convey their underlying quality to external parties (Wallwiener & Schauf, 2004). These disclosures serve as credible indicators of a firm's ethical orientation, governance standards, and long-term commitment, thereby reducing uncertainty for investors and other stakeholders. Prior studies support the notion that firms engaging in comprehensive sustainability reporting are perceived as more trustworthy and transparent, which positively influences the quality of financial reporting (Garanina & Kim, 2023). Accordingly, based on theoretical underpinnings and empirical findings, the following hypothesis is proposed:
H1: *Sustainability reporting has a significant effect on financial reporting quality.*

Institutional investors represent a critical stakeholder group with substantial influence over corporate governance and disclosure practices. According to Stakeholder Theory, firms must address the interests and expectations of various stakeholder groups to maintain organizational legitimacy and achieve sustainable performance (Freeman, 1984). Institutional ownership, due to its scale and strategic interests, is often associated with increased scrutiny of managerial actions and enhanced demand for transparency, particularly regarding ESG disclosures (Hamzah et al., 2024; Putri & Firmansyah, 2023).

Institutional investors possess both the capacity and the incentive to demand higher-quality disclosures. Their presence exerts pressure on firms to adopt more rigorous and comprehensive sustainability reporting practices, which, in turn, may improve the quality of financial reporting (Asfari et al., 2017). Prior research indicates that firms with higher levels of institutional ownership tend to exhibit more robust disclosure policies and are more likely to align with stakeholder expectations for ethical and sustainable conduct (Ligar et al., 2018; Mnif et al., 2019)

Empirical evidence suggests that institutional investors act as effective monitors, facilitating the alignment of sustainability and financial reporting and thereby enhancing the overall quality of disclosed information (Bae et al., 2018; Masud et al., 2018). Therefore, institutional ownership is expected to strengthen the positive relationship between sustainability reporting and financial reporting quality. Based on the above discussion, the following hypothesis is proposed:
H2: *Institutional ownership moderates the relationship between sustainability reporting and financial reporting quality.*

Method

Data Source

This study employs an empirical research method using a quantitative approach. Quantitative research is a process of acquiring knowledge using numerical data as a tool to gain insights into the subject of investigation (Darmawan, 2013). This study is analyzed using statistical methods. The approach used in this research is descriptive quantitative research. The data source comprises secondary data collected through literature reviews and archival studies.

Research Framework

Sustainability reporting refers to the disclosure made by companies regarding their activities in maintaining and improving environmental, social, and corporate governance performance. Previous studies have demonstrated that sustainability reporting has a positive impact on financial reporting quality, primarily because it promotes transparency and accountability (Garanina & Kim, 2023). In this context, the effect of sustainability reporting on financial reporting quality may be moderated by the level of institutional ownership. If institutional ownership limits transparency or promotes political interests, the impact of sustainability reporting on financial reporting quality may be weakened. Conversely, if institutional ownership does not interfere with corporate governance and the company maintains high levels of transparency and accountability in its sustainability reporting, the positive effect of sustainability reporting on financial reporting quality can be sustained.

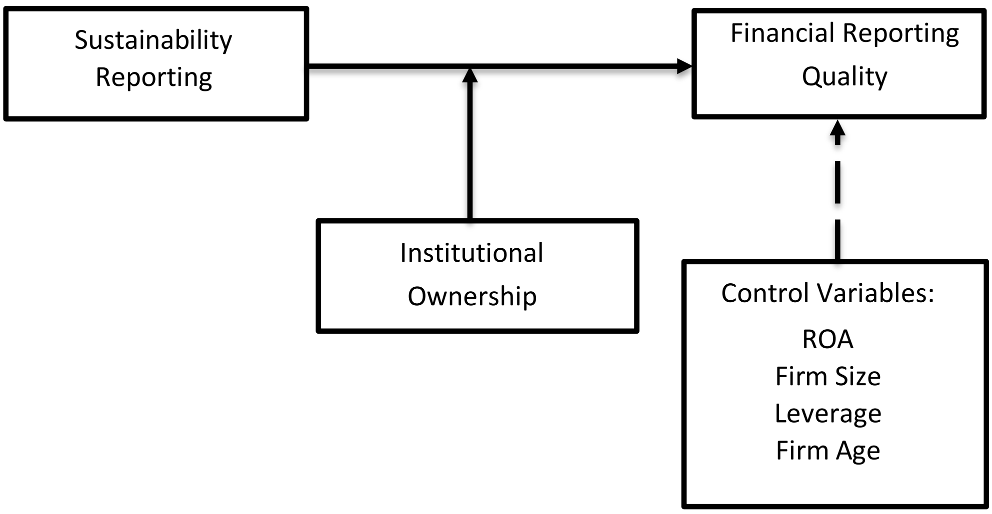

Figure 1. Research Framework

Samples

The population in this study consists of companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. The chosen time frame from 2018 to 2023 is due to the Indonesian government's issuance of a specific regulation on Sustainability Reporting through POJK No. 51/POJK.03/2017 in 2017. However, as of now, sustainability reporting remains voluntary and is not mandated by law. This period selection ensures that the data used is relatively recent and relevant for analyzing trends and changes in corporate sustainability reporting in Indonesia. Although sustainability reporting remains voluntary, this timeframe provides insight into the extent to which companies recognize the importance of social and environmental responsibility and their efforts to adopt sustainable business practices. The sample in this study includes all companies listed on the Indonesia Stock Exchange (IDX). The sampling method employed is purposive sampling, resulting in a final sample of 55 companies, which yields a total of 330 research observations.

Table 1. Variable Definition and Measurements

No	Variables	Descriptions	Measurements
1	CSR Index (CSRD) Pratiwi et al. (2020b); Hidayat (2022)	A measure used to assess the extent to which a company discloses information regarding its social responsibility (CSR) in sustainability reports or financial reports.	$\frac{\sum X1_t}{n_t}$ $X1_t$ = ... n_t = total disclosed items for company t. Criteria variable: 1 = item is disclosed 0 = item is not disclosed
2	Accounting Conservatism (AC) Aprianti and Khomsiyah (2022); Wijaya (2020)	An accounting concept where accountants tend to adopt a conservative approach in financial reporting.	$\frac{Net\ Income\ -\ Cash\ Flow}{Total\ Asset}$
3	Institutional Ownership (IO) E Janrosl and Lim (2019); Barung et al. (2018)	A type of ownership where a portion of shares is held by institutional investors such as mutual funds, government, foreign institutions, corporations, and others.	$\frac{\text{Total Institutional Shares}}{\text{Total } Outstanding \text{ Shares}}$
4	Return on Assets (ROA) Purnasari et al. (2020)	The net income earned on total assets.	$\frac{Net\ Income}{Total\ Assets}$
5	Firm Size (Size) Lutfiana and Hermanto (2021); Hidayat (2022)	The measurement of a company's size.	Ln Total Assets
6	Leverage (Lev) Lutfiana and Hermanto (2021); Rofiqkoh and Priyadi (2016)	The ratio of debt to equity, indicating the proportion of company financing sourced from debt versus equity.	$\frac{Total\ Utang}{Total\ Ekuitas}$
7	Firm Age (Age) Eksandy and Sari (2020); Honggo and Marlinah (2019)	The length of time a company has been operating.	Number of years listed on the Indonesia Stock Exchange (IDX) – year selected as the research sample

The data used in this study is panel data, which is a set of data collected over multiple periods for different subjects, combining time series and cross-sectional data (Sugiyono, 2014). The software used for data analysis is STATA version 16. This study employs multiple linear regression analysis. However, given the presence of a moderation hypothesis, the regression method applied is Moderated Regression Analysis (MRA). Consequently, this study requires classical assumption tests, including heteroscedasticity and multicollinearity tests, to meet the requirements of the Best Linear Unbiased Estimator (BLUE) (Sugiyono, 2014). The research model is presented in the following equation:

$$AC = \alpha + \beta 1CSRD + \beta 2IO + \beta 3CSRD * SO + \beta 4ROA + \beta 5Size + \beta 6Lev + \beta 7Age + \varepsilon$$

Descriptions:
AC = Financial Reporting Quality
CSRD = Sustainability Reporting
IO = Institutional Ownership
ROA = Return on Assets (Control Variable)
Size = Firm Size (Control Variable)
Lev = Leverage (Control Variable)
Age = Firm Age (Control Variable)

Result and Discussion

Descriptive Statistics

Descriptive statistics provide an initial overview of the variables and can be used to observe the characteristics of the research sample. Based on Table 2, the total number of observations for all variables is 330. The mean value of accounting conservatism is 3.14e+08, with a standard deviation of 6.03e+08. A high mean value indicates a high quality of financial reporting among firms (Sugiyono, 2014). The fact that the mean value is lower than the standard deviation suggests a relatively high degree of variation in accounting conservatism. Furthermore, the maximum value of accounting conservatism is 3.81e+09, while the minimum value is -4.50e+08. This indicates that some companies exhibit a high level of conservatism while others demonstrate a lower level.

The sustainability reporting variable has a mean value of 0.2868, with a maximum value of 1 and a minimum value of 0.2629. The standard deviation of sustainability reporting is 0.2629, which is lower than the mean value. This suggests that the variation in data within the sustainability reporting variable is relatively small.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std Dev	Min	Max
ac	330	3.14e+08	6.03e+08	-4.50e+08	3.81e+09
csrd	330	0.2868	0.2629	0	1
io	330	0.4290	0.2959	0	1.3574
roa	330	0.0712	0.0796	-0.1381	0.4666
size	330	21.6304	1.4579	19.282	25.650
lev	330	0.6537	5.5926	-0.78	100.62
age	330	39.7273	14.4901	15	91

Source: Processed Secondary Data, 2025

Model Estimation Test

The model estimation test is conducted to determine the most appropriate model among the three available panel data approaches: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The model selection procedure involves three statistical tests: the Chow test, the Hausman test, and the Lagrangian Multiplier (LM) test. The summarized results and the final model decision are presented in Table 3.

Table 3. Model Selection Summary/Model Estimation Test

Test	Statistic	Prob. Value	Model Selection Rule	Conclusion
Chow Test	F (6,270) = 20.16	0.000	p < 0.05 → FEM is preferred over CEM	Use FEM
Hausman Test	$Chi^2 = 2.1$	0.8480	p > 0.05 → REM is preferred over CEM	Use REM
LM Test	$Chibar^2 = 399.31$	0.0000	p < 0.05 → REM is preferred over CEM	Use REM

Source: Processed Secondary Data, 2025

First, the Chow test is used to compare FEM and CEM. The result shows that the p-value is 0.000, which is less than 0.05. This indicates that the FEM is preferred over the CEM. Next, the Hausman test is conducted to determine whether to use REM or FEM. The result yields a p-value of 0.3480, which is greater than 0.05. This indicates that the REM is more appropriate than the FEM.

Finally, the LM test is conducted to determine the most appropriate model between the REM and the CEM, as well as to ensure consistency with previous tests. Based on the table presented above, the p-value is less than 0.05, indicating that REM is the more suitable model compared to CEM. Thus, all model estimation tests have been performed, leading to the selection of REM as the final estimation model.

Classical Assumption Test

Multicollinearity Test

Following the estimation model selection, a multicollinearity test is conducted. This test aims to determine whether the independent variables in the regression model are highly correlated with each other. If the Variance Inflation Factor (VIF) is greater than 10 or the correlation coefficient between independent variables is. 0.8 indicates the presence of multicollinearity. Conversely, if both values are within the acceptable range, then there is no multicollinearity problem in the model.

Table 6. Correlation Matrix

	io	csrd	roa	size	lev	age
io	1.00	0.28	0.18	0.14	-0.06	-0.01
csrd	0.28	1.00	0.23	0.09	-0.12	0.03
roa	0.18	0.23	1.00	0.07	0.05	-0.02
size	0.14	0.09	0.07	1.00	0.10	0.15
lev	-0.06	-0.12	0.05	0.10	1.00	0.06
age	-0.01	0.03	-0.02	0.15	0.06	1.00

Table 7. Multicolinearity Test

Variable	VIF	1/VIF
io	3.28	0.305266
csrd	2.26	0.441913
roa	1.90	0.525605
size	11.14	0.089797
lev	1.01	0.986928
age	9.01	0.110973
Mean VIF	4.77	

Source: Processed Secondary Data, 2025

Based on the test results in Tables 6 and 7, all correlations are below 0.8, and all VIF values are below 10, indicating no multicollinearity issue is present in the regression model.

Heteroscedasticity Test

The heteroscedasticity test is conducted to examine whether there is an unequal variance of residuals across observations in the regression model.

Table 8. Heteroscedasticity Test

Chi2(6)	480.20
Prob > chi2	0.0000

Source: Processed Secondary Data

The result shows a significance p-value of 0.0000 < 0.05. This means that heteroscedasticity is present in the regression model; thus, robust standard errors should be used in the estimation process to correct for this issue.

Hypothesis Test

Table 9. Hypothesis Test 1

Variable	(1) OLS	(2) FEM	(3) REM	(4) GLS
x_csrd	-1.135	-8.822	6.305	-1.135
	(8.362)	(7.394)	(6.280)	(8.273)
z_io	-8.098	3.059	-6.699	-8.098
	(7.506)	(1.113)	(9.390)	(7.426)
c1_roa	2.452***	2.242***	2.289***	2.452***
	(2.920)	(2.824)	(2.628)	(2.889)
c2_size	3.371***	4.081***	3.424***	3.371***
	(1.622)	(8.307)	(3.139)	(1.605)
c3_lev	113,855	1.545	1.450	113,855
	(3.841)	(2.371)	(2.337)	(3.800)
c4_age	-2.292		-2.270	-2.292
	(1.524)		(3.292)	(1.508)
o.c4_age		-		
Constant	-7.024***	-8.673***	-7.163***	-7.024***
	(3.494)	(1.783)	(6.833)	(3.456)
Observations	330	330	330	330
R-squared	0.593	0.272		
Number of id		55	55	55

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Processed Secondary Data, 2025

Based on Table 9, the results of Hypothesis Test 1 indicate that the Sustainability Reporting variable (X), measured using CSRD, does not have a significant effect on financial reporting quality (Y), measured using AC. This insignificance suggests that the disclosure of sustainability reporting does not have a direct influence on the level of accounting conservatism in corporate financial reports. Consequently, H1 is rejected because the independent variable (X) does not affect the dependent variable (Y). This outcome may be attributed to the fact that sustainability reporting practices implemented by companies have not yet reached a sufficient level of transparency and consistency to impact the quality of accounting conservatism. Sustainability initiatives often require a longer timeframe to influence financial policies, including accounting conservatism (Bhuana & Alfiani, 2022). The effectiveness of sustainability reporting heavily depends on the implementation of strong corporate governance, which may not yet be optimal in the examined companies. In their studies Fitriyah and Suwarno (2024); Mufida and Syafruddin (2023) emphasize that factors such as institutional oversight and corporate governance play a crucial role in linking sustainability reporting to accounting conservatism practices. Therefore, these findings suggest that while sustainability reporting is important, it does not necessarily have a direct impact on accounting conservatism quality unless supported by strong governance mechanisms and a comprehensive reporting strategy. This study also highlights the need for a more integrated approach to understanding the relationship between sustainability reporting and accounting conservatism in future research.

Table 10. Hypothesis Test 2

VARIABLES	(1) OLS Model	(2) FEM Model	(3) REM Model	(4) GLS Model
x_csrd	-2.852*	-1.141	-9.816	-2.852*
	(1.506)	(1.100)	(1.000)	(1.488)
z_io	-1.258	-1.050	-1.051	-1.258
	(1.140)	(1.391)	(1.191)	(1.126)
x_z	3.937	2.472	2.495	3.937
	(2.874)	(1.913)	(1.860)	(2.839)
c1_roa	2.454***	2.220***	2.267***	2.454***
	(2.916)	(2.826)	(2.630)	(2.881)
c2_size	3.375***	4.124***	3.438***	3.375***
	(1.620)	(8.303)	(3.140)	(1.600)
c3_lev	276,565	1.649	1.550	276,565
	(3.837)	(2.369)	(2.335)	(3.790)
c4_age	-2.407		-2.286	-2.407
	(1.525)		(3.293)	(1.506)
o.c4_age		-		
Constant	-6.979***	-8.718***	-7.151***	-6.979***
	(3.504)	(1.781)	(6.833)	(3.461)
Observations	330	330	330	330
R-squared	0.595	0.276		
Number of id		55	55	55
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1				

Source: Processed Secondary Data, 2025

The hypothesis test results indicate that the moderating variable, institutional ownership (IO), hurts the relationship between CSRD and AC. This suggests that institutional ownership does not strengthen the relationship between sustainability reporting and financial reporting quality; instead, it weakens it. These findings imply that institutional ownership does not function as a governance mechanism that promotes sustainability disclosure and financial reporting quality. Instead, institutional owners may exert pressure that prioritizes other aspects, such as operational efficiency or short-term profitability, which do not support transparency in sustainability reporting (Novianti & Waharini, 2021; Sidiq et al., 2021). Consequently, since institutional ownership (IO) negatively moderates the relationship between CSRD and AC, hypothesis H2 is rejected.

The Effect of Sustainability Reporting on Financial Reporting Quality

The test results indicate that sustainability reporting has no significant impact on financial reporting quality. This finding indicates that, despite its purpose of enhancing corporate transparency and strengthening accountability in financial reporting, sustainability reporting is not yet robust enough to influence the level of accounting conservatism applied by companies. These results contradict previous research conducted by (Garanina & Kim, 2023).

One possible explanation for this outcome is the weak enforcement of regulations and the relatively low awareness of ESG issues among stakeholders in Indonesia. Although the Financial Services Authority (OJK) has mandated sustainability reporting through POJK No. 51/POJK.03/2017, compliance remains low. According to Dewi (2019), sustainability reporting remains voluntary mainly and has not been fully implemented effectively by companies Gutama and Sisdianto (2024), which often renders it a mere formality. Studies such as those by Harymawan et al. (2020) and Iriansyah et al. (2023) also highlight that many Indonesian firms produce boilerplate disclosures, which are generally statements lacking measurable targets, third-party assurance, or SDG alignment.

Many companies disclose sustainability reports primarily to fulfill regulatory obligations or enhance their corporate image Kono et al. (2023); Rahmah et al. (2024) rather than as part of a long-term strategy to improve financial information quality. In other words, sustainability reporting may serve more as a legitimacy tool than a direct factor contributing to financial reporting quality.

From the perspective of legitimacy theory, sustainability reporting should serve as a tool for companies to gain legitimacy from society and investors (Tavares & Dias, 2018). However, this study's findings suggest that the legitimacy obtained through sustainability reporting is insufficient to enhance financial reporting quality unless supported by stringent regulations and robust corporate governance.

From the standpoint of stakeholder theory, sustainability reporting should provide benefits to stakeholders, particularly investors and regulators (Amin et al., 2024). Nevertheless, this study suggests that stakeholders continue to focus more on financial aspects within financial reports than on sustainability disclosures. Thus, while sustainability reporting provides additional information regarding a company's social and environmental responsibilities, this information has yet to influence accounting conservatism in financial reporting significantly.

The Moderating Role of Institutional Ownership in the Relationship Between Sustainability Reporting and Financial Reporting Quality

The test results suggest that institutional ownership, as a moderating variable, negatively impacts the relationship between sustainability reporting and financial reporting quality. This means that institutional ownership does not strengthen this relationship but instead weakens it. One key reason for this is that institutional investors are often more focused on short-term financial results rather than sustainability aspects (Widyaningtyas et al., 2024). Although institutional investors are theoretically expected to encourage greater transparency and better governance, they may prioritize immediate financial performance over the implementation of high-quality sustainability reporting. Additionally, dominant institutional ownership in a company can create pressure on management to focus more on short-term profit maximization rather than on transparency and sustainability accountability (Widyaningtyas et al., 2024).

These findings contradict the signaling theory, which posits that sustainability reporting can serve as a positive signal indicating corporate transparency and accountability (Wallwiener & Schauf, 2004). If sustainability reporting were to act as a strong signal for institutional investors, the relationship between sustainability reporting and financial reporting quality would be stronger rather than weaker. However, in this study, institutional investors' pressure is more directed toward achieving operational efficiency and short-term profitability rather than enhancing transparency in sustainability reporting. These findings also suggest that institutional investors in Indonesia have yet to fully incorporate sustainability reporting as a key factor in investment decision-making. Therefore, to enhance the influence of sustainability reporting on financial reporting quality, stricter policies are needed to encourage institutional investors to consider sustainability aspects when evaluating corporate performance.

Conclusions and Recommendations

This study finds that sustainability reporting does not have a significant impact on financial reporting quality in Indonesian companies. The findings suggest that sustainability disclosures are still largely formalistic and have not yet been fully integrated with conservative accounting practices. Additionally, institutional ownership weakens this relationship, indicating that institutional investors tend to prioritize short-term financial gains. These results contradict signaling theory, which assumes that sustainability reports signal long-term value to investors, but in practice, such disclosures remain limited in impact without stronger regulations and governance.

Theoretically, this research shows that sustainability reporting alone does not guarantee better financial reporting. Practically, it emphasizes the need for companies to integrate sustainability into their strategic management rather than merely complying with regulations. Regulators should enforce stricter reporting standards, while institutional investors are encouraged to consider ESG aspects in investment decisions to promote accountability and transparency.

This study is limited to listed companies in Indonesia and relies on secondary data. Future research could be expanded to other sectors or employ qualitative methods to gain a deeper understanding of the dynamics between sustainability practices and financial reporting. Investigating the roles of regulation, culture, and industry-specific factors may offer deeper insights into this relationship.

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