

Research Article

Factors Influencing the Quality of Financial and Sustainability Reports

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Abstract.

This study explores the factors influencing Financial Reporting Quality (FRQ) and Sustainability Reporting Quality (SRQ) in Indonesian publicly listed companies. High-quality financial reporting is crucial for supporting decision-making by investors, creditors, and other stakeholders. However, earnings management and financial statement manipulation remain significant challenges, as has happened in the case of several public companies in Indonesia. Concurrently, sustainability reporting is gaining more attention as businesses shift towards environmentally, socially, and governance (ESG) responsible practices. This research aims to explore the determinant factors of FRQ and SRQ and investigate the relationship between the two. Research was conducted on ESGQKEHATI index companies listed on the Indonesia Stock Exchange (IDX). This research utilizes data from financial reports, annual reports, and sustainability reports of companies listed on the IDX for the 2019–2022 period. Through multiple linear regression analysis and 2-Stage Least Squares (2SLS) methods, the study finds that independent board supervision and institution ownership positively and significantly impact financial reporting quality. Additionally, industry classification, company size, and sustainability committees are key determinants of sustainability reporting quality. These findings emphasize the importance of strong corporate governance in enhancing corporate transparency and accountability. This study also found a reciprocal relationship between FRQ and SRQ.

Keywords: financial reporting quality, sustainability reporting quality, corporate governance, ESGQKEHATI index companies

1. Introduction

Accounting Fraud of Enron Corporation and WorldCom in the 2000s, which implicated the world's leading public accounting firm, Arthur Andersen LLP, prompted the global community to question the quality of financial reporting [1]. The Enron scandal led to the revocation of Arthur Andersen LLP's license. This incident had a significant impact on the development of research in accounting, particularly on the topics of earnings

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management and financial reporting quality (FRQ), which remain active areas of study to this day.

Financial reporting fraud scandals also often occur in Indonesia, such as the following: Kimia Farma public company, the results of an audit of the 2001 financial statements found that the company had reported profits that were 24.7% higher than actual profits. A similar case occurred at PT. KAI, the results of an audit of the 2005 financial statements found that the company reported a profit of IDR 6.9 billion, but in the reality the company made a loss so that PT KAI's financial report was restated and made a loss of IDR 63 billion. The financial reporting fraud scandal that has attracted quite a lot of public attention is PT. Garuda Indonesia. in the general meeting of shareholders, management reported that 2018 profits reached US\$ 239.94 million, equivalent to IDR 3.48 trillion, but the audit results found that the company lost US\$ 175 million, equivalent to IDR 2.53 trillion [2]

Various cases of fraudulent financial reporting that have occurred show that the quality of financial reporting is a crucial issue that is of concern to the public, especially users of financial reports such as investors, creditors, analysts, regulators and the general public. Referring to this problem, the first objective of this research is to explore the determining factors of financial reporting quality (FRQ).

Previous research conducted by [3] tested the determinants of FRQ using inherent factors involving dynamic factors (operational cycle and sales volatility), static factors (company size, company age) and company risk factors (leverage). The results obtained by dynamic factors influence FRQ while static and risk factors do not influence RFQ. In contrast to [3], this research will explore the factors that determine FRQ based on the dimensions of corporate governance, both internal and external dimensions. The use of these determinant factors refers to agency theory and stakeholder theory

The internal dimensions considered in this research are managerial ownership and the effectiveness of supervision by the independent board of commissioners. It is suspected that when management has a portion of ownership, a sense of ownership arises and as owners of course they want quality financial reports. The role of the independent board of commissioners is to supervise management performance, so the more effective the supervision is, the better management performance will be. Meanwhile, the two external dimensions considered in this research are institutional ownership and auditor reputation. Institutional ownership generally acts as the majority shareholder so that it can provide effective control over management performance.

External auditors are public accountants, who also have responsibility for the quality of audited financial reports.

Alongside the growing importance of financial reporting, there has been an increasing focus on sustainability reporting [4]. The concept of sustainability reporting reflects a shift from traditional financial reporting, which primarily focuses on economic performance, to a broader perspective that includes environmental, social, and governance (ESG) factors [5]. This transition aligns with the global movement towards responsible and sustainable business practices, driven by the need to address pressing issues such as climate change, social inequality, and corporate governance [6].

In Indonesia, the OJK has mandated that publicly listed companies prepare and disclose a Sustainability Report [4]. This report is expected to provide stakeholders with insights into the company's ESG performance, reflecting its commitment to sustainable development. However, the lack of standardized guidelines for preparing sustainability reports poses a significant challenge [7]. Companies often struggle with what to include in their reports, leading to inconsistencies in the quality and depth of information provided. This has raised concerns about the comparability and reliability of sustainability reports across different companies and industries [8]

[9] stated that in Indonesia, the publication of sustainability reports by public companies is increasing including the presence of annual awards initiated by the National Center for Sustainability Reporting (NCSR) and the strengthening of stakeholder demands which encourage companies to provide transparent and accountable information. Accounting plays an important role in supporting, managing and expressing desires in the business [6]. Regarding the quality of sustainability reports, research conducted by [10] found evidence that there is a gap between the facts about the environmental impacts caused by company operations and what has been reported in the sustainability report, so that the credibility and reliability of sustainability reports has been widely criticized. Therefore, it is very important to carry out research regarding the Sustainability Reporting Quality (SRQ) and the determining factors. The second aim of this research is to explore the determinants of the sustainability reporting quality.

Previous research related to SRQ is still limited. From literature searches, several results were obtained, such as research conducted by [10] investigating corporate reporting in the UK, showing that stand-alone sustainability reports reveal more social information and do not provide higher quality information. Research by [8] using a sample of companies in the US found that there was a positive correlation between the

quantity of sustainability reporting and SRQ. SRQ research in Indonesia was conducted by [11] who tested the readability level of sustainability reports of public companies in Indonesia and found that the readability level was still at a low level. Referring to legitimacy theory and stakeholder theory, the SRQ determinant factors considered in this research are company characteristics (industry classification and company size) and corporate governance (effectiveness of supervision by the independent board of commissioners and the existence of a sustainability committee).

After exploring the determinant factors of FRQ and SRQ, this research was developed by testing the relationship between the two. Therefore, the third aim of this research is to examine the relationship between financial report quality (FRQ) and sustainability report quality (SRQ). Furthermore, the interplay between financial reporting quality and sustainability reporting quality is a topic that has garnered increasing academic and industry interest. There is a growing recognition that a company's financial performance and its ESG performance are interlinked [12]. Companies with robust ESG practices are often perceived as better managed and less risky, which can enhance their financial performance over the long term [13]. Conversely, companies that prioritize short-term financial gains at the expense of sustainability may face reputational risks and financial penalties in the future.

A study in China by [12] found that the quality of sustainability reports in the current period is related to the quality of financial reports in the current and future periods. Another study in Brazil by [14] found no evidence of a relationship between the quality of financial reports and corporate social responsibility (CSR) disclosure. Similar research has not been found in Indonesia, but analogously, research by [13] found that public companies that received the Indonesia Sustainability Reporting Award (ISRA) had higher profit persistence and received a positive reaction from the market as indicated by an increase in the share price of the company concerned.

By investigating these issues, the research hopes to provide valuable insights into how companies can improve their reporting practices to meet the growing demands for transparency, accountability, and sustainability. Understanding the factors that drive high-quality financial and sustainability reporting is crucial for policymakers, investors, and companies alike. As the corporate world continues to evolve, the ability to integrate financial and sustainability considerations into a cohesive reporting framework will be key to building trust with stakeholders and achieving long-term success.

2. Literature Review and Hypothesis Development

The large number of cases of accounting fraud that occur globally reflects the low quality of financial reports presented by companies. The low quality of financial reports is because management has used its discretion to carry out earnings management to meet certain objectives. Positive accounting theory developed by Scott (2015) quoted by [15] states that the underlying motivation for company management to carry out financial reporting engineering actions are: bonus purpose, debt covenant purpose, implicit contracting purpose, to meet investors' earnings expectations, and income tax considerations. This theory has been supported by the results of previous research [3], [16].

Financial report quality is of course not solely determined by management's motivation for managing profits, but corporate governance factors play a very important role [16]. According to the Forum for Corporate Governance in Indonesia (FCGI), corporate governance is a set of regulations or a system that regulates the relationship between all parties with an interest in a company, both internal and external, regarding their rights and obligations [17]. Good corporate governance guarantees the fulfillment of the rights and obligations of all stakeholders. Good corporate governance can be realized through monitoring/control mechanisms both internal and external.

Management ownership can be an internal control mechanism that can influence earnings management fraud. When management also acts as owner, it can reduce the incidence of agency problems, which will affect discretion in presenting financial reports. This has been proven by several studies such as [18] using a sample of public companies in Japan to prove that management ownership is related to earnings management in a non-linear manner. Another research conducted in Indonesia by [19] found that managerial ownership had an effect on earnings engineering.

The internal monitoring mechanism can also be carried out by an independent board of commissioners. Stakeholder theory and agency theory provide the same perspective regarding the supervisory function of the independent board of commissioners. These two major theories state that effective supervision by an independent board of commissioners can ensure that a company's management will behave in accordance with the wishes of stakeholders, in terms of decision making and reporting [20]. Research conducted by [21] on public companies in emerging markets found evidence that the greater the proportion of independent commissioners in the board of commissioners structure tends to increase the quality of financial reports.

Apart from internal monitoring mechanisms, monitoring mechanisms can also be carried out by external parties. Referring to agency theory, it states that the presence of institutional investors is able to act as a monitoring mechanism for management policies. Institutional investors generally place very large funds in a company so that they can become majority shareholders and thus be able to control management. This is proven by [21] who found that the greater the proportion of institutional ownership tends to increase the quality of financial reports. This finding is in line with [22] which states that institutional ownership influences earnings management.

Another external monitoring mechanism can come from external auditors employed by the company to audit its financial reports. [22] also conducted research on audit quality and obtained evidence that audit quality had a negative effect on earnings management with a decreasing income pattern. These results are in line with agency theory which states that audited financial reports are a monitoring mechanism to provide financial information guarantees to users that the information presented in audited financial reports is quality information and has value. Referring to the underlying theoretical perspective, namely agency theory and stakeholder theory as well as the results of existing research, the first hypothesis developed to answer the first research question is **H1: management ownership, supervision by an independent board of commissioners, institutional ownership, and auditor quality are determinant factors for financial reporting quality.**

The concept of sustainability accounting has now become a new paradigm in the development of accounting systems in business organizations. Implementing sustainability accounting has many benefits for organizations. By applying the concept of sustainability accounting, company management has linked the company's business strategy with the sustainability framework and this process will make the company not only focus on financial impacts, but also consider the social and environmental impacts of every business decision made. carried out by company management.

The practice of implementing sustainability accounting is that companies disclose financial information, social information and environmental information in the form of corporate sustainability reporting [23]. Since the enactment of the financial services authority regulations No.51/POJK.03/2017 which requires Financial Services Institutions, Issuers and Public Companies to prepare Sustainability reports, the number of public companies submitting sustainability reports has increased. Capital market data shows

that there has been a significant increase in the number of issuers publishing sustainability reports, from 54 issuers in 2018 to 154 issuers publishing sustainability reports in December 2021 [24].

The majority of companies in Indonesia use GRI guidelines with the in accordance-core option, namely that companies can determine which indicators are material for stakeholders to be disclosed in sustainability reports [20]. This condition causes the quality of sustainability reporting between companies to vary because the information disclosed is absolutely the company's consideration. According to [8], the level of quality of sustainability reporting disclosure is based on how widely and deeply the information is disclosed. From the literature search, several research results were obtained regarding the quality of sustainability reports. By investigating corporate sustainability reporting in the UK [10] found that stand-alone sustainability reports reveal more social information and do not provide higher quality information. When the quality of sustainability reports was measured using readability level [11] found that sustainability reports presented by public companies in Indonesia were still at a low level.

What factors determine the quality of a sustainability report? A recent study conducted by [20] tested three factors that influence SRQ, namely: type of industry, effectiveness of the board of commissioners, and company size. And the test results found that these three variables significantly influence sustainability report quality. The influence of industry type and the effectiveness of the board of commissioners is in line with [25] but different from [26]. The significant influence of the effectiveness of the board of commissioners on SRQ is also in accordance with stakeholder theory that the presence of commissioners as supervisors can effectively increase the quantity of disclosure and quality of reports presented by management.

Another factor to consider is the size of the company. The existence of a significant influence of company size on SRQ has been proven in several countries such as [27] in India, by [28] in Italy and Germany, and [20] in Indonesia. The research results which are able to prove the influence of company size on SRQ are in line with legitimacy theory which states that large companies will receive more attention from stakeholders. This research develops existing research by adding the variable sustainability committee as a factor that influences SRQ. [29] stated that the existence of the ESG Committee is a form of the company's commitment to sustainable development in environmental, economic, social and governance aspects. Using an agency theory perspective [27] proves that companies that have an ESG committee have better performance. Referring to the three major theories, namely agency theory, shareholders theory, legitimacy

theory, and existing research results, the second hypothesis developed in this research is, **H2: industry classification, company size, supervision by the independent board of commissioners, and sustainability committees are the determining factors of the sustainability reporting quality.**

Financial reporting quality and sustainability reporting quality are both very important. FRQ provides guarantees to stakeholders, especially investors and potential investors, that they will receive relevant and reliable information. SRQ provides guarantees to all stakeholders regarding the company's sustainability performance. Research examining the relationship between FRQ and SRQ is still very limited. A study conducted by [12] in China, where SRQ was measured by the number of items disclosed and FRQ was measured by profit persistence, resulted in the results of the current year's SRQ being related to the current year's FRQ and the next year's FRQ.

In contrast to [12], the study conducted by [14] using a sample of public companies in Brazil was not able to prove a relationship between FRQ and SRQ, where SRQ was measured using CSR disclosures. Even though there is still very limited research examining the relationship between FRQ and SRQ, stakeholder theory states that companies as business organizations have responsibilities to all stakeholders, not only investors or owners, but also to society, the environment, government, suppliers, workers and others. In accordance with the agency theory perspective, it can be said that presenting quality financial reports will mitigate agency problems with capital owners. And by presenting quality sustainability reports can also mitigate agency problems with other stakeholders.

Although financial reports and sustainability reports are two different types of reports, they have an important relationship in providing a comprehensive picture of a company's performance and value in the long term [20]. The integration of information from these two types of reports provides a better understanding of how companies manage their resources sustainably, both from a financial and non-financial perspective, thereby increasing transparency and accountability to all stakeholders which will have an impact on increasing company value in the long term. Based on agency theory and stakeholder theory as well as existing research results, the third hypothesis developed in this research is, **H3: The relationship between the financial reporting quality and the sustainability reporting quality is a reciprocal relationship.**

The research design was shown in Figure 1.

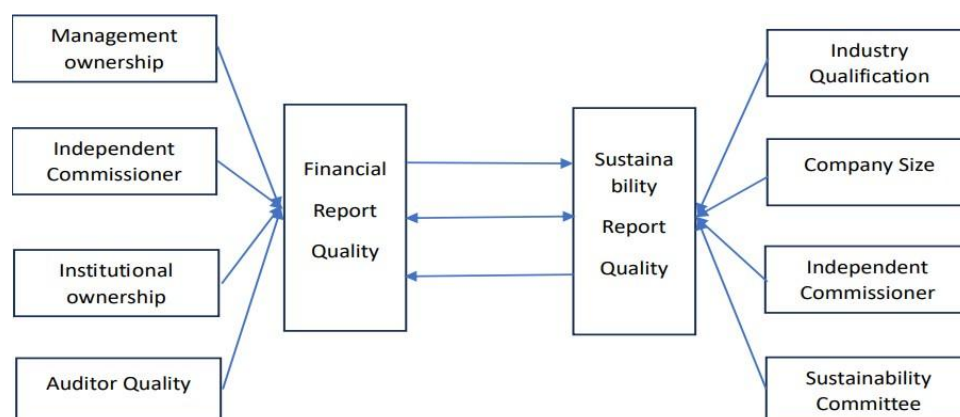


Figure 1: Research Design.

3. Research Method

This research adopts a quantitative methodology to analyze and explain the determinant factors and the relationship between FRQ and SRQ. The object of the study focuses on the financial reporting and sustainability reporting of entities listed in the ESGQKEHATI index on the Indonesia Stock Exchange (IDX) during the period 2019 - 2022. The research sample is determined by the following criteria: ESGQKEHATI index companies listed on the IDX for the research period from 2019-2022; ESGQKEHATI index companies that publish financial reports and annual reports, and sustainability reports during the research period from 2019 to 2022; ESGQKEHATI index companies that has complete data for all variables used in this research. Data was taken from the IDX website <https://www.idx.co.id/id/perusahaan-tercatat/laporan-keuangan-dan-tahunan> and the website of each sample company.

This research implements 4 research models. The hypothesis testing was carried out using multiple regression analysis. The first test involved partial multiple linear regression to test hypotheses related to the determinant factors of FRQ dan SRQ. The second stage applied the two-stage least squares method to examine the reciprocal relationship between FRQ and SRQ.

Model 1 to test the determinant factors of FRQ

$$FRQ = a_0 + a_1(MgOwn) + a_2(lnCom) + a_3(IntOwn) + a_4(AuditQ) + e \quad (1)$$

Model 2 to test the determinant factors of SRQ

$$SRQ = a_0 + a_1(lnClas) + a_2(Size) + a_3(lnCom) + a_4(EsgCom) + e \quad (2)$$

Model 3 and model 4 to test the relationship between FRQ and SRQ

$$FRQ = a_0 + a_1(SRQ) + a_2(MgOwn) + a_3(lnCom) + a_4(IntOwn) + a_5(AuditQ) + e \quad (3)$$

And

$$SRQ = a_0 + a_1(FRQ) + a_2(\ln Clas) + a_3(Size) + a_4(\ln Com) + a_5(EsgCom) + e \quad (4)$$

Variable Operationalization:

FRQ = Financial report quality is measured using earnings, SRQ = Sustainability report quality is measured using the number of items reported in the sustainability report and the level of conformity with GRI standards. MgOwn = Management ownership is measured using the proportion of share ownership by management. InCom = The effectiveness of the supervision of the independent board of commissioners is measured using the proportion of the number of independent commissioners to the total board of commissioners. IntOwn = Institutional ownership is institutional ownership as measured by the proportion of share ownership by institutional investors. AuditQ = Auditor quality is measured using the reputation of the public accounting firm hired by the company based on the big 4 category, in dummy variable format, the value is 1 if the auditor is in the big 4 category and the value is 0 otherwise. InClas = Industry classification is measured using industry code numbers, Siza = company size is measured using the natural logarithm (Ln) of total assets. EsgCom = The sustainability committee is measured by the number of people involved in the ESG committee.

4. Result and Discussion

The research population includes 180 firm years, after selecting the sample with the specified criteria, the final sample is 144 firm years or 80% of the population. This section will discuss descriptive data, reliability analysis and validity test, multiple linear regression tests, hypothesis tests, and discussions.

4.1. Descriptive test

The descriptive statistics for various variables from a sample of 144 shown the management ownership variable ranges from 0 to 0.6509, with a mean of 0.0492 and a standard deviation of 0.1544, indicating low variability. The Independent Commissioner variable spans from 1 to 7, with a mean of 3.1944 and a standard deviation of 1.1842, suggesting greater variability. The Institution ownership variable has a wide range from 0.0967 to 35.692, with a mean of 2.2194 and a standard deviation of 7.0165, indicating significant disparity. The Auditor Quality variable ranges from 0 to 1, with a mean of 0.9027 and a standard deviation of 0.2972, reflecting a relatively high concentration.

The FRQ variable shows a narrow range from 0.0701 to 0.8046, with a mean of 0.1170 and a standard deviation of 0.1031. The SRQ variable ranges from 0.4200 to 0.9900, with a mean of 0.8111 and a standard deviation of 0.1198. The Industry Qualification variable is binary, with a mean of 0.6250 and a standard deviation of 0.4858. The company size variable ranges from 24.3100 to 37.550, with a mean of 31.676 and a standard deviation of 2.3066, showing moderate variability. Finally, the Sustainability Committee variable is binary with a mean of 0.2083 and a standard deviation of 0.4075.

4.2. Validity test

The results of the validity test indicate that all indicators of the variables studied are declared valid. This is evidenced by the calculated r value exceeding the r -table value of 0.1637. Each indicator, such as Management Ownership, Independent Commissioner, Institution Ownership, Auditor Quality, FRQ, SRQ, Industry Qualification, and Company Size, has a calculated r -value greater than the r -table, demonstrating strong validity. For instance, the calculated r -value for Management Ownership is 0.2694, Independent Commissioner 0.2728, Institution Ownership 0.1674, Auditor Quality 0.1683, FRQ 0.1656, SRQ 0.2700, and Industry 0.1659. These values indicate that the indicators successfully represent the determining factors measured in the study. Additionally, the Company Size variable has the highest calculated r -value of 0.4192, showing significant contribution to the research. Meanwhile, Sustainability Committee has a calculated r -value of 1.0000, which clearly confirms its validity. From these results, it can be concluded that all variables meet the criteria set in the study and are eligible to proceed to the next test. Therefore, this research can move forward with confidence that all variables used have met the necessary validity requirements for further analysis. This validity serves as a crucial foundation in ensuring that the results obtained from the subsequent tests will be relevant and reliable in answering the research questions posed.

4.3. Reliability test

The results of the reliability test analysis indicate that all research variables meet the reliability criteria. This can be seen from the Cronbach's Alpha values, which are higher than the established threshold of 0.60. For example, the Management Ownership variable has a Cronbach's Alpha value of 0.829, Institution Ownership has 0.773, and Independent Commissioner has 0.801. These values indicate that the instruments used

to measure these variables have good internal consistency and can be relied upon in this research. Additionally, other variables such as Auditor Quality have a Cronbach's Alpha value of 0.819, FRQ has 0.827, and SRQ has 0.824, all of which demonstrate that the instruments can be consistently used to measure aspects relevant to the study.

Even the Industry variable shows a very high level of reliability with a Cronbach's Alpha value of 0.874, further reinforcing the confidence that the data collected through these instruments can be trusted. The Company Size variable is also declared reliable with a Cronbach's Alpha value of 0.783, while Sustainability Committee has a value of 0.652, which also meets the minimum reliability criterion of 0.60. Based on these results, it can be concluded that all variables used in this study have met the required reliability criteria for further analysis. This provides a strong foundation for the researcher to proceed to the next stage of the study, with confidence that the data obtained from these instruments will be consistent and relevant in addressing the research questions posed.

4.4. Multiple linear regression test

The results of partial multiple regression testing on model 1 and model 2 are shown in Table 1 below. The results of the analysis of model 1 displayed show several important values. First, the value of the constant is set at 0.265. Furthermore, the regression coefficient for each independent variable is as follows: Management Ownership it has a coefficient of 0.319, independent commissioners of 0.176, Institution Ownership of 0.137 and auditor quality of 0.045. Based on these values, we can formulate the multiple linear regression equation as follows:

$$FRQ = 0,265+ 0,319MgOwn + 0,176InCom + 0,137IntOwn + 0,045AuditQ + e$$

TABLE 1: Multiple Linear Regression Test.

Model 1			Model 2		
Variable	Cow. B	Error Standards	Variable	Cow. B	Error Standards
Constant	0,265	0,035	Constant	0,386	0,138
MgOwn	0,319	0,056	InClas	0,146	0,019
InCom	0,176	0,017	Size	0,011	0,004
IntOwn	0,137	0,011	InCom	0,003	0,008
AuditQ	0,045	0,029	EsgCom	0,047	0,023

While the results of model 2 analysis displayed show the following important values. First, the value of the constant is set at 0.386. Furthermore, the regression coefficient for each independent variable is as follows: industry qualifications of 0.146, Company Size of 0.011, Independent commissioners have a coefficient of 0.003 and Sustainability Committee of 0.047. Based on these values, we can formulate the multiple linear regression equation as follows:

$$Y = 0,386 + 0,146\text{InClas} + 0,011\text{Size} + 0,003\text{InCom} + 0,047\text{EsgCom} + e$$

4.5. Hypothesis test

Table 2 displays the results of the two-stage least squares (2 SLS) tests to prove the hypothesis proposed in this research. Based on the t-test results, it was found that independent board supervision and Institutional ownership positively and significantly influence financial reporting quality (FRQ), with t-values of 2.618 and 1.957, and p-values of 0.010 and 0.034, respectively (both < 0.05). On the other hand, management ownership and Auditor Quality also have a positive effect on FRQ, but the results are not significant (t-values of 1.961 and 1.958, p-values of 0.052). The study further revealed that industry classification, Company Size, and sustainability committees are significant determinants of sustainability reporting quality (SRQ), with p-values of 0.000, 0.012, and 0.042, while independent board supervision does not significantly affect SRQ.

This study reveals that the supervision of the independent board of commissioners and Institution Ownership has a positive and significant influence on the quality of financial statements. This shows that the existence of independent commissioners and Institution Ownership investors plays an important role in increasing the transparency and accountability of the company's financial reporting. Interestingly, Management Ownership and Auditor Quality showed a positive but not significant influence. This may indicate that while both factors contribute to improving the quality of financial statements, their influence is not as strong as others. These findings open up opportunities for further research on how to improve the effectiveness of Management Ownership and the role of Auditor Quality in the context of financial reporting.

The results of the study show that industry classification, Company Size, and the existence of a sustainability committee are significant determining factors for the quality of sustainability reports. These findings confirm that the characteristics of the Industry Qualification, the scale of the company's operations, and the commitment to sustainability through the establishment of a special committee have a substantial impact on the

TABLE 2: The two-stage least squares test.

Model 3, FRQ as dependent variable					
	Cow B	Error Standards	Beta	t	Mr.
Konstan	0,122	0,074		1,657	0,050
MgOwn	0,018	0,056	0,127	1,961	0,052
InCom	0,019	0,007	0,217	2,618	0,010
IntOwn	0,021	0,001	0,178	1,957	0,034
AuditQ	0,056	0,029	0,128	1,958	0,052
SRQ	0,163	0,072	0,189	2,271	0,025
Model 4, SRQ as dependent variable					
	Cow B	Error Standards	Beta	t	Mr.
Konstan	0,359	0,142		2,521	0,013
InClas	0,142	0,020	0,576	7,030	0,000
Size	0,011	0,005	0,221	2,539	0,012
InCom	0,000	0,009	0,004	0,048	0,962
EsgCom	-0,046	0,023	-0,158	-1,052	0,042
FRQ	0,167	0,028	0,281	2,188	0,047

quality of sustainability reporting. On the other hand, the oversight of the independent board of commissioners has not been shown to be a significant determinant factor for the quality of sustainability reports. This raises questions about the effectiveness of the role of independent commissioners in the context of sustainability reporting and may indicate the need for increased focus or competence of independent commissioners on sustainability issues.

Based on the results of the two-stage least squares (2SLS) analysis to test hypothesis 3 regarding the mutual relationship between the quality of financial statements (FRQ) and the quality of sustainability reports (SRQ). Both models show a significant and positive influence between FRQ and SRQ in both directions. This supports the H3 hypothesis that there is a reciprocal relationship between the quality of financial statements and the quality of sustainability reports.

The results of the F test and the adjusted R^2 value are displayed in Table 3 produced a significance value of 0.000 where the value was smaller than alpha 0.05. The results of the coefficient of determination test reveal that the determinants of financial reporting quality (FRQ) have an R Square value of 0.582, indicating that 58.2% of the variability in FRQ is explained by Management ownership independent board supervision,

TABLE 3: Adjusted R² and F-Test.

	Adj.R ²	Fcal	Table	Fsig	Criterion	Information
FRQ determinants	0.582	20,298	3,060	0,000	<0,05	Significant
SRQ determinants	0.499	8,210	3,060	0,048	<0,05	Significant
Relationship of FRQ to SRQ	0.501	16,206	3,060	0,000	<0,05	Significant

Institutional ownership, and Auditor Quality, while the remaining 41.8% is influenced by other factors not included in the study. Similarly, the determinants of sustainability reporting quality (SRQ) show an R Square value of 0.499, meaning that 49.9% of SRQ variability is explained by industry classification, company size, independent board supervision, and sustainability committees, with the remaining 50.1% influenced by external factors. Furthermore, the interrelationship between FRQ and SRQ yields an R Square value of 0.501, indicating that 50.1% of their reciprocal influence is explained by the model, while 49.9% is determined by factors outside the scope of this research. These findings suggest that while the models account for a substantial portion of the variability, significant influences remain unexplained.

5. Conclusions

The results of this research are able to show that the dimensions of corporate governance and company characteristics are factors that determine the quality of reporting, both financial reporting and sustainability reporting. This study also succeeded in proving that there is a significant reciprocal relationship between the quality of financial statements and the quality of sustainability reports. These findings are particularly important because they show that quality improvement efforts in one type of reporting can have a positive impact on other types of reporting. Limitations of this research is the use of linear regression to test the determinant factor of financial reports and sustainability reports quality, Future research could use a structural equation model to test the relationship between variables

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