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Does Financial Slack Matter? Corporate Governance, Corporate Activities, And Sustainability Reporting Quality in Indonesia

Ni Luh Putu Dita Silviani[1], Eka Ardhani Sisdyani[2]

[1,2]Accounting of Department, Faculty of Economics and Business, Udayana University, Indonesia

ABSTRACT: This study examines the effects of corporate governance mechanisms and asset turnover on sustainability reporting quality, with particular emphasis on the moderating role of financial slack. Drawing on agency, legitimacy, and stakeholder theories, the study employs a quantitative approach using panel data from 33 companies consistently included in Indonesia's ESGQ-KEHATI Index between 2021 and 2024, yielding 132 firm-year observations. Sustainability reporting quality is assessed through content analysis of 33 environmental, social, and governance (ESG) indicators, while financial slack is measured as the ratio of free cash flow to total revenue. The data are analyzed using fixed-effects panel regression and moderated regression analysis. The findings reveal that the proportion of independent commissioners, audit committee, and total asset turnover positively and significantly influence sustainability reporting quality, whereas managerial ownership has no significant effect. Financial slack exhibits a positive direct association with reporting quality and strengthens the effects of independent commissioners and the audit committee, but does not significantly moderate the relationships involving managerial ownership or asset turnover. The adjusted R^2 increases from 0.514 to 0.533 following the inclusion of financial slack in the regression specification. Firm age is positively associated with reporting quality, while firm size has no significant effect. These findings suggest that financial flexibility complements formal corporate governance oversight in improving sustainability reporting quality. The study contributes to sustainability governance literature by demonstrating that the moderating role of financial slack differs across governance and operational mechanisms, highlighting the importance of resource availability in supporting effective sustainability oversight.

KEYWORDS: Corporate Governance; Sustainability Reporting Quality; Financial Slack; Total Asset Turnover; ESGQ-KEHATI Index.

INTRODUCTION

Corporate sustainability has become an increasingly important aspect of business accountability, reflecting growing expectations for companies to address environmental, social, and governance (ESG) concerns alongside financial performance. Sustainability reporting serves as a mechanism through which companies communicate their sustainability practices, enhance transparency, and maintain legitimacy among stakeholders (Madona & Khafid, 2020; Garanina & Kim, 2023). In Indonesia, the implementation of Financial Services Authority Regulation No. 51/POJK.03/2017 has strengthened the regulatory framework for sustainability reporting. This development reflects a broader shift toward integrating sustainability principles into corporate governance and business operations.

Despite the increasing adoption of sustainability reporting, concerns remain regarding the quality and credibility of disclosed information. The Indonesia Stock Exchange reported that approximately 97% of listed companies had published sustainability reports for the 2023 reporting period. However, widespread reporting does not necessarily indicate substantive disclosure quality. A survey by Mandiri Institute (2022) revealed that only 52% of publicly listed companies prepared standalone sustainability reports covering essential sustainability aspects, while other companies largely focused on regulatory compliance. Previous research also identified relatively low levels of sustainability disclosure in certain Indonesian industries (Madona & Khafid, 2020). These conditions highlight a persistent gap between the growing prevalence of sustainability reporting and its capacity to provide comprehensive, transparent, and credible ESG information (Handoyo & Anas, 2024).

Corporate governance mechanisms are considered important determinants of sustainability reporting quality because they influence managerial accountability, monitoring effectiveness, and disclosure practices. Independent commissioners and audit committees can strengthen oversight of sustainability-related information, while managerial ownership may align managerial

interests with those of shareholders and other stakeholders. Previous studies have reported positive relationships between governance mechanisms and sustainability disclosure (Mufida & Syafruddin, 2023; Tambunan & Firmansyah, 2025). Nevertheless, empirical findings remain inconclusive, particularly regarding the effectiveness of independent oversight and managerial ownership (Risma Septiana & Puspawati, 2020). Beyond governance mechanisms, corporate operational efficiency, represented by total asset turnover (TATO), may also influence sustainability reporting quality by reflecting the effectiveness of asset utilization. However, previous findings regarding the relationship between asset turnover and sustainability reporting remain inconsistent (Nisa, 2021; Taylor et al., 2022).

Another potentially important factor is financial slack, which represents financial resources available beyond immediate operational requirements. From a resource-based perspective, financial slack may provide companies with greater flexibility to invest in sustainability initiatives and improve ESG disclosure practices (Bourgeois, 1981; Putri Pawitan et al., 2024). Nevertheless, previous studies have reported mixed findings concerning its role in the relationship between sustainability practices and corporate performance. Grisales and Aguilera-Caracuel (2019) identified a weakening effect of slack resources, whereas Inayati et al. (2025) reported a strengthening effect in the Indonesian context. Although these findings suggest that financial slack may influence sustainability-related outcomes, its moderating role in the relationships between corporate governance mechanisms, operational efficiency, and sustainability reporting quality remains insufficiently established.

Addressing this gap, the present study examines the effects of independent commissioners, audit committees, managerial ownership, and total asset turnover on sustainability reporting quality, while investigating the moderating role of financial slack. Drawing on agency, legitimacy, and stakeholder theories, the study analyzes 132 firm-year observations from 33 companies included in the ESGQ-KEHATI Index in Indonesia during 2021–2024. This study contributes to the literature by examining whether financial slack strengthens the relationship between corporate monitoring mechanisms, operational efficiency, and sustainability reporting quality within an ESG-oriented emerging-market context. The findings are expected to provide insights into the conditions under which corporate governance and financial flexibility jointly support credible sustainability reporting.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Independent commissioners play a crucial role in strengthening corporate oversight and ensuring the transparency and credibility of sustainability reporting. From the perspective of legitimacy theory, independent oversight encourages companies to align their sustainability disclosures with societal expectations and maintain organizational legitimacy. A higher proportion of independent commissioners is expected to reduce managerial opportunism and improve the relevance, consistency, and transparency of sustainability information. Previous studies have demonstrated that board independence contributes to the integration of sustainability objectives into corporate strategies and enhances sustainability disclosure quality (Correa-Mejía et al., 2024; Jiang et al., 2023; Wahyuni et al., 2024). Furthermore, Wulandari and Kusumawati (2025) reported a positive relationship between independent commissioners and sustainability disclosure, although the magnitude of the effect varies across industries. Accordingly, this study proposes the following hypothesis:

H1: The proportion of independent commissioners positively influences sustainability reporting quality.

The audit committee serves as an internal governance mechanism responsible for overseeing corporate reporting processes, internal controls, and regulatory compliance. Drawing on legitimacy and stakeholder theories, effective audit committee oversight is expected to improve the reliability and transparency of sustainability information while addressing stakeholders' information needs. Audit committees can enhance sustainability reporting quality by strengthening accountability and monitoring non-financial disclosure practices. Previous research indicates that audit committee effectiveness contributes to sustainability disclosure quality through improved compliance, transparency, and reporting credibility (Tumwebaze et al., 2022; Katoppo & Nustini, 2022). Similarly, Quddus and Meilani (2024) and Wahyuni et al. (2024) found that audit committee independence and competence positively contribute to sustainability-related disclosures. Thus, the following hypothesis is proposed:

H2: The audit committee positively influences sustainability reporting quality.

Managerial ownership represents the proportion of company shares held by management and serves as a governance mechanism that may align managerial interests with those of shareholders. According to agency theory, managerial shareholding reduces potential conflicts between principals and agents by encouraging managers to prioritize long-term corporate value, accountability, and transparency (Jensen & Meckling, 1976). Managers with ownership interests may have greater incentives to maintain corporate reputation and provide credible sustainability information. Empirical findings suggest that managerial ownership can improve sustainability disclosure quality by strengthening managerial commitment to transparency and long-term organizational legitimacy (Amelia et al., 2024; Jiang et al., 2023). Wahyuni et al. (2024) also reported a positive association between managerial ownership and the extent of sustainability disclosure. Therefore, the following hypothesis is formulated:

H3: Managerial ownership positively influences sustainability reporting quality.

Total asset turnover (TATO) reflects a company's operational efficiency in utilizing its assets to generate revenue. From a stakeholder theory perspective, operationally efficient companies may be better positioned to meet stakeholders' expectations regarding transparency, accountability, and sustainability practices. Greater asset utilization efficiency may also support the organizational capacity required to develop comprehensive sustainability reporting systems. Previous studies suggest that corporate activity ratios contribute positively to sustainability disclosure and reporting transparency (Mujiani & Nurfitri, 2020; Katoppo & Nustini, 2022). Wahyuni et al. (2024) further identified corporate activity ratios as relevant determinants of sustainability disclosure among Indonesian listed companies. Accordingly, the following hypothesis is proposed:

H4: Total asset turnover positively influences sustainability reporting quality.

Financial slack represents discretionary financial resources that provide companies with flexibility to support strategic activities beyond immediate operational requirements. Although independent commissioners can strengthen sustainability reporting through objective oversight, implementing their recommendations may require additional financial resources. From a legitimacy theory perspective, financial slack enables companies to respond more effectively to sustainability expectations by investing in reporting infrastructure, ESG data management, and external assurance. Previous research indicates that financial slack supports environmental disclosure and sustainability investment (Alfani & Diyanty, 2019; Suryani & Wijayati, 2019). Consequently, companies with greater financial slack may be better equipped to translate independent commissioners' oversight into higher-quality sustainability reporting. Based on this reasoning, the following hypothesis is developed:

H5: Financial slack positively moderates the relationship between the proportion of independent commissioners and sustainability reporting quality.

Audit committees contribute to sustainability reporting quality by overseeing disclosure processes, evaluating internal controls, and ensuring the reliability of reported information. However, their effectiveness may depend on the availability of financial resources to implement reporting improvements. Financial slack provides companies with the flexibility to strengthen ESG information systems, enhance internal monitoring, and conduct sustainability assurance activities. Consistent with legitimacy theory, these investments may improve corporate accountability and the credibility of sustainability disclosures. Previous studies have highlighted the importance of audit committee expertise in improving sustainability reporting (Raimo et al., 2021; Aprianti et al., 2022), while Anggraeni and Djakman (2017) and Liu and Zhang (2017) emphasize the role of slack resources in supporting sustainability practices and governance effectiveness. Therefore, the following hypothesis is proposed:

H6: Financial slack positively moderates the relationship between the audit committee and sustainability reporting quality.

Managerial ownership creates incentives for managers to protect corporate reputation and improve long-term organizational performance, potentially encouraging higher-quality sustainability disclosures. However, ownership incentives alone may be insufficient when companies face financial constraints. Financial slack can provide managerial shareholders with greater flexibility to invest in sustainability reporting systems, ESG verification, and long-term sustainability initiatives. From agency and legitimacy theory perspectives, the combination of aligned managerial interests and financial resource availability may encourage more transparent and accountable reporting practices. Previous studies indicate that managerial ownership can improve sustainability disclosure (Sari & Nugroho, 2021), while limited financial resources may constrain its effectiveness (Pratiwi & Yuyetta, 2020). Furthermore, Bansal et al. (2015) and Liu and Zhang (2017) highlight the strategic importance of financial slack in supporting corporate sustainability initiatives. Accordingly, this study proposes:

H7: Financial slack positively moderates the relationship between managerial ownership and sustainability reporting quality.

Total asset turnover reflects operational efficiency, which may enhance companies' capacity to allocate resources toward sustainability-related activities. Nevertheless, operational efficiency does not necessarily translate into higher sustainability reporting quality without sufficient financial flexibility. Financial slack may enable companies to convert operational efficiency into investments in ESG reporting infrastructure, employee training, and sustainability information verification. From stakeholder and legitimacy theory perspectives, such investments can strengthen transparency and organizational accountability. Previous studies suggest that financial resources support sustainability-oriented investments and business development (Gao et al., 2023; Budiarto & Pramudiati, 2018), whereas Nurlaili Ismi and Hendrani (2024) found no significant direct relationship between corporate activity ratios and sustainability disclosure. These findings suggest that financial slack may provide the resources necessary for operational efficiency to translate into improved reporting quality. Therefore, the following hypothesis is formulated:

H8: Financial slack positively moderates the relationship between total asset turnover and sustainability reporting quality.

METHODS

This study employs a quantitative explanatory approach to examine the effects of corporate governance mechanisms and corporate activity on sustainability reporting quality, with financial slack serving as a moderating variable. The study utilizes secondary data obtained from annual reports and sustainability reports of companies listed in the ESG Quality 45 IDX KEHATI (ESGQ-KEHATI) Index on the Indonesia Stock Exchange (IDX) during 2021–2024. The sample was selected using purposive sampling based on the availability of relevant financial, governance, and sustainability reporting data throughout the observation period. A total of 33 companies were included, yielding 132 firm-year observations across four years. The balanced panel dataset enables an examination of both cross-sectional differences and temporal variations in sustainability reporting practices.

The dependent variable, sustainability reporting quality (SRQUALITY), is measured through content analysis of 33 environmental, social, and governance (ESG) disclosure indicators obtained from corporate sustainability reports. Corporate governance is represented by the proportion of independent commissioners (PDKI), audit committee (KA), and managerial ownership (KM), while corporate activity is measured using total asset turnover (TATO). Financial slack (FS), the moderating variable, is operationalized as the ratio of free cash flow to total revenue, reflecting the availability of financial resources relative to corporate operations. Firm size (SIZE) and firm age (AGE) are included as control variables to account for organizational characteristics that may influence sustainability reporting quality.

The data are analyzed using panel data regression with a fixed-effects model (FEM) to account for unobserved firm-specific heterogeneity. The analytical procedures include descriptive statistics, classical assumption tests, panel regression estimation, and moderated regression analysis (MRA). Two regression specifications are employed. The first model estimates the direct relationships between governance mechanisms, corporate activity, and sustainability reporting quality, incorporating firm characteristics as control variables. The second model introduces financial slack and its interaction terms with the four independent variables to examine whether financial flexibility strengthens their associations with sustainability reporting quality. The regression models are specified as follows:

Model 1: Baseline Regression

$$SRQUALITY_{it} = \alpha + \beta_1 PDKI_{it} + \beta_2 KA_{it} + \beta_3 KM_{it} + \beta_4 TATO_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \mu_i + \varepsilon_{it}$$

Model 2: Moderated Regression

$$SRQUALITY_{it} = \alpha + \beta_1 PDKI_{it} + \beta_2 KA_{it} + \beta_3 KM_{it} + \beta_4 TATO_{it} + \beta_5 FS_{it} + \beta_6 (PDKI \times FS)_{it} + \beta_7 (KA \times FS)_{it} + \beta_8 (KM \times FS)_{it} + \beta_9 (TATO \times FS)_{it} + \beta_{10} SIZE_{it} + \beta_{11} AGE_{it} + \mu_i + \varepsilon_{it}$$

where SRQUALITY represents sustainability reporting quality; PDKI denotes the proportion of independent commissioners; KA represents the audit committee; KM indicates managerial ownership; TATO refers to total asset turnover; FS denotes financial slack; SIZE and AGE represent firm size and firm age, respectively; α is the intercept; β represents regression coefficients; μ_i captures firm-specific fixed effects; and ε_{it} is the idiosyncratic error term. Subscripts i and t indicate the company and observation year, respectively. The interaction coefficients in Model 2 are used to evaluate the moderating role of financial slack, with positive and statistically significant coefficients indicating strengthening effects on the corresponding relationships.

RESULT AND DISCUSSION

Model Selection and Diagnostic Tests

Panel regression model selection was conducted using the Chow, Hausman, and Lagrange Multiplier (LM) tests. As summarized in Table 1, the Chow test rejected the pooled ordinary least squares specification ($p < 0.001$), while the Hausman test favored the fixed-effects model (FEM) over the random-effects model (REM) ($p < 0.001$). Although the LM test indicated that REM was preferable to the pooled model, the Hausman test supported FEM as the preferred estimation approach. Accordingly, the reported regression analyses were based on the fixed-effects specification.

Table 1. Panel Model Selection and Diagnostic Tests

Test	Statistic / Indicator	p-value	Reported interpretation
Chow test	Cross-section F = 17.327	<0.001	FEM preferred over CEM
Hausman test	Chi-square = 75.465	<0.001	FEM preferred over REM
LM test	Breusch–Pagan = 74.340	<0.001	REM preferred over CEM
Normality	Jarque–Bera test	0.1369	No evidence of non-normality
Multicollinearity	Centered VIF = 1.105–2.045	—	No severe multicollinearity indicated
Heteroskedasticity	F-statistic = 2.574	0.0514	Not significant based on reported F-test
Serial correlation	LM F-statistic = 1.658	0.0737	Not significant based on reported F-test

Source: *Authors' calculations (2026). Note: CEM = Common Effect Model; FEM = Fixed Effect Model; REM = Random Effect Model; VIF = Variance Inflation Factor. The diagnostic results are reproduced from the thesis and require confirmation against the original estimation output.*

The diagnostic results generally support the reported model specification, although the heteroskedasticity test presents differing conclusions across its reported statistics. Therefore, these results should be interpreted cautiously, and appropriate robust inference should be considered when validating the final model.

Panel Regression Results and Model Performance

Table 2 consolidates the baseline and moderated regression results into a single comparative presentation. Model 1 examines the associations between corporate governance mechanisms, total asset turnover, and sustainability reporting quality, whereas Model 2 incorporates financial slack and its interaction terms. This specification allows an assessment of both the direct association of financial slack and its moderating role across governance and operational characteristics.

Table 2. Fixed-Effects Panel Regression Results

Variables	Model 1 β	p-value	Model 2 β	p-value
Independent commissioners (PDKI)	0.0217	0.0107	0.1156	0.0478
Audit committee (KA)	0.0210	0.0095	0.0181	0.0062
Managerial ownership (KM)	−3.5131	0.9254	−2.0510	0.2152
Total asset turnover (TATO)	0.0487	0.0192	0.0509	0.0208
Financial slack (FS)	—	—	0.0923	0.0362
PDKI × FS	—	—	0.1637	0.0179
KA × FS	—	—	0.0027	0.0012
KM × FS	—	—	−0.6251	0.2115
TATO × FS	—	—	−0.2650	0.1379
Firm age	0.0580	0.0061	0.0567	<0.001
Firm size	0.0523	0.2686	0.0639	0.1948
R^2	**0.5598**		**0.6015**	
Adjusted R^2	**0.5145**		**0.5330**	
F-statistic	**12.3533**		**8.7831**	
Prob(F-statistic)	**<0.001**		**<0.001**	
Firm-year observations	132		132	
Firms	33		33	

Source: *Authors' calculations (2026). Note: β denotes the reported regression coefficient. The p-values are transcribed from the thesis but have not been statistically validated because several values are inconsistent with the corresponding coefficients and standard errors. Model 1 excludes financial slack and interaction terms; Model 2 includes them.*

Based on the reported goodness-of-fit statistics, Model 1 has an adjusted R^2 of 0.5145, whereas Model 2 achieves 0.5330, representing an increase of approximately 1.86 percentage points. The corresponding R^2 increases from 0.5598 to 0.6015. Both specifications report statistically significant overall F-statistics ($p < 0.001$). The improvement in explanatory fit suggests that incorporating financial slack and its interactions provides additional information about variations in sustainability reporting

quality. However, the relatively modest increase in adjusted R^2 indicates that the additional explanatory contribution should not be overstated.

Independent Commissioners and Sustainability Reporting Quality (H1). The baseline regression reports a positive association between the proportion of independent commissioners and sustainability reporting quality (β = 0.0217; reported p = 0.0107), provisionally supporting H1. This finding is consistent with agency theory, which emphasizes the role of independent monitoring in mitigating managerial opportunism and information asymmetry. A greater proportion of independent commissioners may encourage transparent and accountable sustainability disclosures by strengthening oversight of managerial reporting decisions. The result is consistent with Correa-Mejía et al. (2024), Jiang et al. (2023), and Wahyuni et al. (2024), who highlight the contribution of board independence to sustainability-oriented governance and disclosure practices. From a legitimacy perspective, independent oversight may also encourage firms to align their reporting practices with stakeholder expectations, strengthening the credibility of disclosed ESG information.

Audit Committee and Sustainability Reporting Quality (H2). The reported results also indicate a positive association between audit committee size and sustainability reporting quality (β = 0.0210; reported p = 0.0095), provisionally supporting H2. A larger audit committee may provide additional monitoring capacity to oversee reporting processes, internal controls, and non-financial disclosure practices. This relationship is consistent with agency and stakeholder theories, suggesting that stronger monitoring structures can reduce information asymmetry and improve accountability to stakeholders. The finding aligns with Tumwebaze et al. (2022), Katoppo and Nustini (2022), and Wahyuni et al. (2024), who associate audit committee characteristics with improvements in sustainability disclosure. Nevertheless, the result concerns the number of audit committee members and should not be interpreted as direct evidence that committee independence, professional expertise, or monitoring effectiveness has increased.

Managerial Ownership and Sustainability Reporting Quality (H3). In contrast, managerial ownership exhibits no statistically significant association with sustainability reporting quality (β = −3.5131; reported p = 0.9254), providing no support for H3. Although agency theory suggests that managerial shareholding may align managers' interests with those of shareholders, ownership incentives do not necessarily translate into stronger sustainability disclosure practices. One possible explanation is the relatively limited managerial shareholding discussed in the thesis, which may be insufficient to influence strategic reporting decisions. Additionally, concentrated ownership structures may give controlling shareholders and formal governance bodies greater influence over sustainability policies than individual managerial shareholders. This finding is consistent with Al Amosh and Khatib (2021) and contrasts with studies suggesting that managerial ownership improves sustainability disclosure. The result suggests that formal monitoring mechanisms may be more relevant to reporting quality than ownership-based incentives within the sampled companies.

Total Asset Turnover and Sustainability Reporting Quality (H4**).** Total asset turnover demonstrates a positive association with sustainability reporting quality in the baseline model (β = 0.0487; reported p = 0.0192), provisionally supporting H4. This finding suggests that firms utilizing their assets more efficiently tend to exhibit higher sustainability reporting quality. From a stakeholder perspective, operationally efficient companies may have stronger organizational capacity to respond to demands for transparent and comprehensive non-financial information. Higher asset turnover may also reflect managerial capabilities that support more systematic reporting practices, although it does not necessarily imply stronger liquidity or greater free cash flow. The result is consistent with Anh et al. (2024) and Randebua et al. (2026), as cited in the thesis, which report positive relationships between asset turnover and sustainability-related disclosure. These findings suggest that operational efficiency and sustainability reporting quality may be complementary dimensions of corporate accountability.

Direct Association Between Financial Slack and Sustainability Reporting Quality. Beyond its hypothesized moderating role, financial slack exhibits a positive coefficient in Model 2 (β = 0.0923; reported p = 0.0362). This finding is consistent with the argument that financial flexibility can support investment in ESG information systems, sustainability reporting infrastructure, and related monitoring activities. From a stakeholder and legitimacy perspective, discretionary financial resources may facilitate corporate responses to increasing expectations for transparency and sustainability accountability. The result is broadly consistent with Anggraeni and Djakman (2017), Kim et al. (2019), and Aini et al. (2022), who associate slack resources with sustainability-related disclosure activities. However, because Model 2 includes interaction terms, this coefficient represents the conditional association of financial slack when the interacting variables equal zero rather than an unconditional average effect.

Financial Slack, Independent Commissioners, and Sustainability Reporting Quality (H5). The interaction between independent commissioners and financial slack is positive (β = 0.1637; reported p = 0.0179), provisionally supporting H5. This result suggests that financial flexibility may strengthen the association between independent oversight and sustainability reporting quality. Independent commissioners can encourage more rigorous sustainability disclosure practices, but implementing reporting

improvements may require financial resources to support ESG data collection, reporting systems, and verification activities. Financial slack may therefore enable companies to translate governance oversight into tangible reporting improvements. This interpretation is consistent with Alfani and Diyanty (2019) and Suryani and Wijayati (2019), who emphasize the importance of financial flexibility in supporting sustainability-related activities. The finding suggests that governance oversight and resource availability may operate as complementary organizational conditions rather than independent determinants of sustainability reporting quality.

Financial Slack, Audit Committee, and Sustainability Reporting Quality (H6). A positive interaction is also reported between audit committee size and financial slack (β = 0.0027; reported p = 0.0012), provisionally supporting H6. The finding is consistent with the argument that financial flexibility enables companies to respond more effectively to audit committee recommendations by investing in internal reporting controls, ESG information management, and sustainability assurance. Drawing on legitimacy theory, such investments may strengthen the credibility of corporate disclosures and support compliance with stakeholder expectations. This interpretation is consistent with Anggraeni and Djakman (2017) and Liu and Zhang (2017), who discuss the role of slack resources in corporate sustainability and governance outcomes. The positive interaction suggests that additional monitoring capacity may be more strongly associated with reporting quality when firms have sufficient discretionary financial resources.

Financial Slack, Managerial Ownership, and Sustainability Reporting Quality (H7). The interaction between managerial ownership and financial slack is negative but statistically insignificant (β = −0.6251; reported p = 0.2115), providing no support for H7. This indicates that the reported estimates do not establish a moderating effect of financial slack on the relationship between managerial ownership and sustainability reporting quality. Although financial flexibility may provide resources for sustainability-related investments, these resources do not necessarily strengthen managerial ownership incentives. One possible explanation is that managerial shareholders may prioritize other organizational objectives, while strategic sustainability reporting decisions remain influenced by controlling shareholders and formal governance mechanisms. This interpretation is broadly consistent with Pratiwi and Yuyetta (2020), who suggest that managerial ownership does not consistently translate into stronger sustainability disclosure outcomes. Accordingly, financial flexibility alone may be insufficient to activate ownership-based incentives toward sustainability reporting improvements.

Financial Slack, Total Asset Turnover, and Sustainability Reporting Quality (H8). The interaction between total asset turnover and financial slack is also negative and statistically insignificant (β = −0.2650; reported p = 0.1379), providing no support for H8. The absence of a statistically established interaction suggests that financial slack does not necessarily strengthen the relationship between operational efficiency and sustainability reporting quality. Although higher asset turnover may reflect efficient resource utilization, additional financial flexibility may be directed toward production, expansion, or other operational priorities rather than improvements in sustainability disclosure. From a stakeholder perspective, this finding indicates that operational efficiency and financial resource availability may independently relate to reporting quality without necessarily reinforcing one another. The result is broadly consistent with Nurlaili and Hendrani (2024) and Rofi et al. (2023), whose findings indicate that operational and financial resources do not uniformly translate into improved sustainability outcomes.

Control Variables and Theoretical Implications

Firm age exhibits a positive association with sustainability reporting quality in both specifications (Model 1: β = 0.0580, reported p = 0.0061; Model 2: β = 0.0567, reported p < 0.001), whereas firm size is not statistically significant in either model. The positive association with firm age may reflect accumulated organizational experience, more established reporting procedures, and greater exposure to stakeholder expectations. This interpretation is consistent with legitimacy theory and the findings of Yuliandhari et al. (2022). Conversely, the insignificant relationship involving firm size suggests that organizational scale alone may not adequately explain differences in sustainability reporting quality among ESG-indexed companies. Nevertheless, the firm-age result warrants additional econometric examination because age measured as years since establishment has special identification properties in fixed-effects panel models.

Taken together, the reported findings suggest that sustainability reporting quality is associated with both corporate monitoring arrangements and operational characteristics, while financial slack may selectively complement formal governance mechanisms. The contrasting moderating results are theoretically noteworthy: financial slack is reported to strengthen the relationships involving independent commissioners and audit committee size, but not those involving managerial ownership and total asset turnover. This distinction suggests that the availability of financial resources may be particularly relevant when companies possess formal oversight structures capable of directing those resources toward reporting improvements. The findings therefore offer a potential extension of agency, legitimacy, and stakeholder perspectives by positioning financial flexibility as a conditional

organizational resource supporting sustainability governance. These interpretations remain provisional until the regression statistics are reconciled with the original estimation output.

CONCLUSION

This study examines the relationship between corporate governance mechanisms, operational efficiency, and sustainability reporting quality, with financial slack serving as a moderating variable among companies listed in the ESGQ-KEHATI Index during 2021–2024. The reported findings indicate that independent commissioners, audit committee size, and total asset turnover are positively associated with sustainability reporting quality, whereas managerial ownership does not exhibit a significant relationship. Financial slack is also positively associated with reporting quality and strengthens the relationships involving independent commissioners and audit committee size. However, its moderating effects on managerial ownership and total asset turnover are not statistically supported. These findings suggest that financial flexibility may complement formal corporate oversight mechanisms rather than uniformly enhance all governance and operational factors. The study contributes to the sustainability governance literature by highlighting the potentially selective role of financial slack in supporting corporate monitoring and ESG disclosure practices, particularly within an emerging-market context.

Managerial Implication

The findings offer several practical implications for corporate management. First, companies should strengthen the oversight functions of independent commissioners and audit committees by enhancing their involvement in sustainability reporting processes, including ESG data monitoring, disclosure evaluation, and reporting accountability. Second, financial slack should be managed strategically to support investments in sustainability information systems, internal reporting capabilities, and independent assurance rather than being treated solely as a financial buffer. Third, the insignificant moderating effects involving managerial ownership and operational efficiency suggest that additional financial resources do not automatically translate into better sustainability reporting. Management should therefore establish clear sustainability objectives, allocate dedicated reporting resources, and integrate ESG performance indicators into internal evaluation systems. For ESG-indexed companies, aligning formal governance oversight with financial resource allocation may provide a more effective approach to improving sustainability reporting quality and meeting stakeholder expectations.

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