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ENVIRONMENTAL COST AND AUDIT COMMITTEE ON FINANCIAL PERFORMANCE

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Abstract

This study aims to examine the effect of environmental cost and the audit committee on the financial performance of companies listed on the Main Board of the Indonesia Stock Exchange in 2024. Despite increasing attention to environmental governance and corporate oversight, prior studies have predominantly analyzed these variables separately, leaving a gap in understanding their simultaneous impact, particularly in the context of large-capitalization firms in emerging markets such as Indonesia. This research employs a quantitative approach with purposive sampling, resulting in 164 firm-year observations. Data were obtained from companies' annual and sustainability reports for 2024. Financial performance is proxied by Return on Assets (ROA), and the hypotheses are tested using multiple linear regression with SPSS version 26. The results indicate that environmental cost and the audit committee, both partially and simultaneously, do not have a significant effect on financial performance. The coefficient of determination (R^2) is close to zero, indicating very limited explanatory power of the model in explaining variations in ROA. These findings suggest that environmental expenditures among large firms remain predominantly compliance-oriented rather than strategically value-enhancing, while the audit committee tends to function more as a formal governance mechanism rather than an effective driver of financial performance. Theoretically, this study contributes to stakeholder theory and agency theory by highlighting the limited short-term and lagged financial impact of environmental and governance mechanisms. Practically, the findings provide insights for companies and regulators to strengthen the strategic role of environmental cost allocation and improve the effectiveness of audit committees in supporting long-term value creation.

Keywords : Environmental Cost, Audit Committee, Financial Performance

Abstrak

Penelitian ini bertujuan untuk mengkaji pengaruh biaya lingkungan dan komite audit terhadap kinerja keuangan perusahaan-perusahaan yang terdaftar di Papan Utama Bursa Efek Indonesia pada tahun 2024. Meskipun perhatian terhadap tata kelola lingkungan dan pengawasan korporat semakin meningkat, penelitian-penelitian sebelumnya sebagian besar menganalisis variabel-variabel tersebut secara terpisah, sehingga meninggalkan celah dalam pemahaman mengenai dampak simultan keduanya, terutama dalam konteks perusahaan-perusahaan berkapitalisasi besar di pasar negara berkembang seperti Indonesia. Penelitian ini menggunakan pendekatan *kuantitatif dengan sampling purposif, menghasilkan 164 observasi perusahaan-tahun. Data diperoleh dari laporan tahunan dan laporan keberlanjutan perusahaan untuk tahun 2024. Kinerja keuangan diproksikan oleh Return on Assets (ROA), dan hipotesis diuji menggunakan regresi linier berganda dengan SPSS versi 26. Hasil menunjukkan bahwa biaya lingkungan dan komite audit, baik secara parsial maupun simultan, tidak memiliki pengaruh yang signifikan terhadap kinerja keuangan. Koefisien determinasi (R^2) mendekati nol, menunjukkan daya penjelas model yang sangat terbatas dalam menjelaskan variasi ROA. Temuan ini menyarankan bahwa pengeluaran lingkungan di kalangan perusahaan besar masih didominasi oleh orientasi kepatuhan daripada peningkatan nilai strategis, sementara komite audit cenderung berfungsi lebih sebagai mekanisme tata kelola formal daripada pendorong kinerja keuangan yang efektif. Secara teoritis, penelitian ini berkontribusi pada teori pemangku kepentingan dan teori agensi dengan menyoroti dampak keuangan jangka pendek dan tertunda yang terbatas dari mekanisme lingkungan dan tata kelola. Secara praktis, temuan ini memberikan wawasan bagi perusahaan dan regulator untuk memperkuat peran strategis alokasi biaya lingkungan dan meningkatkan efektivitas komite audit dalam mendukung penciptaan nilai jangka panjang.*

Keywords : *Biaya Lingkungan; Komite Audit; Kinerja Keuangan*

JEL Classification : M41, M42

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INTRODUCTION

In the era of globalization, business competition has intensified, requiring companies to continuously adapt to dynamic internal and external environments. As economic entities, companies play a crucial role in promoting economic growth and sustainability through profit generation. Sustained profitability reflects strong financial performance and creates value for stakeholders. In recent years, stakeholders have placed increasing emphasis on social and environmental issues due to heightened environmental awareness (Nabilah & Ahmadi, 2024). According to Stakeholder Theory (Freeman, 1984), companies are expected to balance profit objectives with social and environmental responsibilities (Hapsari et al., 2021). However, many companies still face challenges in achieving optimal performance due to inefficient cost management and limited transparency in financial reporting. Environmental costs, in particular, are often underestimated despite their significant implications for corporate reputation and long-term profitability. In Indonesia, reports from the Central Statistics Agency (BPS) suggest that a substantial proportion of large firms have experienced declining sustainability performance, especially in environmentally sensitive sectors such as mining and manufacturing. In contrast, Alfaruq (2021) reports that firms implementing environmental management practices tend to exhibit improved market and financial performance. These findings highlight the strategic importance of environmental cost allocation.

Despite increasing attention to environmental costs and audit committee roles, empirical evidence remains inconsistent, particularly in emerging market contexts.

Some studies document positive effects, while others report insignificant relationships. Moreover, studies that simultaneously examine environmental cost and audit committee in large-capitalization firms listed on the Main Board of the Indonesia Stock Exchange remain limited, indicating the need for further investigation.

Financial performance, commonly proxied by Return on Assets (ROA), reflects a firm's ability to generate returns from its assets (Anjarwati & Safri, 2022). Environmental cost refers to expenditures incurred to prevent, reduce, or remediate environmental damage (Ladyve et al., 2021; Fadillah et al., 2023). Although often perceived as a short-term burden, such expenditures may generate long-term benefits, including operational efficiency, risk mitigation, and enhanced corporate reputation (Zainab & Burhany, 2020).

In addition, corporate governance mechanisms, particularly the audit committee, play an important role in influencing financial performance. As an independent oversight body, the audit committee is expected to enhance monitoring effectiveness, improve financial reporting quality, and strengthen internal control systems. According to Agency Theory (Jensen & Meckling, 1976), the audit committee reduces information asymmetry and agency conflicts between management and shareholders, thereby enhancing stakeholder confidence (Almira Mahsa Zulaika & Mariani, 2024).

Companies listed on the Main Board of the Indonesia Stock Exchange represent large-capitalization firms with substantial assets and established performance records, making them a relevant context for examining sustainability and governance issues. The novelty of this study lies in examining the simultaneous effect of environmental cost and audit committee on financial performance within the ESG framework in Indonesia, particularly among large-capitalization firms. Unlike prior studies that analyze these variables separately, this study integrates both factors using recent data from 2024.

This study contributes to the literature in three ways. First, it enriches theoretical understanding by integrating Stakeholder Theory and Agency Theory in explaining financial performance within ESG contexts. Second, it provides practical insights for firms in optimizing environmental cost allocation and strengthening audit committee effectiveness. Third, it offers policy implications for regulators in enhancing transparency and accountability in environmental and governance practices. Accordingly, this study aims to examine the effect of environmental cost and audit committee on financial performance, both partially and simultaneously, within the context of large-capitalization firms in Indonesia.

LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), posits that firms are not only accountable to shareholders but also to a broader group of stakeholders affected by corporate activities, including customers, society, government, and the environment. As a grand theory, it emphasizes that corporate success depends on the firm's ability to manage stakeholder relationships and balance economic, social, and environmental interests.

In this context, environmental costs incurred by firms represent a tangible form of responsibility toward environmental stakeholders. At the same time, the audit committee plays a critical role in ensuring transparency and accountability in financial reporting, which is essential for maintaining stakeholder trust. Therefore, both environmental cost allocation and audit committee effectiveness are theoretically expected to influence corporate financial performance. Barney (2021) argues that managers play a strategic role in designing business models that integrate stakeholder interests. Furthermore, Putri et al. (2023) highlight that stakeholder engagement in corporate activities contributes positively to sustainability and firm value. Accordingly, environmental costs can be interpreted not merely as operational expenses but as strategic instruments that signal corporate responsibility and potentially enhance financial performance, particularly in the long term.

Agency Theory

Agency Theory explains the relationship between principals (shareholders) and agents (management), in which differing interests may give rise to agency conflicts. This condition necessitates effective monitoring mechanisms to ensure that managerial actions remain aligned with shareholders' objectives. Jensen and Meckling (1976) emphasize that governance mechanisms, such as audit committees, play an essential role in reducing agency costs by monitoring managerial behavior and mitigating moral hazard. Supporting this perspective, Meiryani et al. (2023) argue that audit committees function as independent oversight bodies responsible for supervising the audit process and financial reporting, thereby aligning management actions with stakeholder interests.

Thus, the existence of an effective, independent, and competent audit committee is expected to enhance the quality of financial reporting and strengthen internal control systems, which in turn may positively influence financial performance. However, it should be noted that the effectiveness of the audit committee depends not only on its existence but also on its competence, independence, and level of activity.

Financial Performance

Financial performance reflects the outcome of managerial decisions influenced by both internal strategies and external environmental conditions. It indicates the extent to which a firm can efficiently manage and utilize its resources to generate profits, maintain liquidity, and ensure long-term sustainability. According to Sukmawati et al. (2022), financial performance serves as an evaluation of how well a firm conducts its operations in accordance with sound financial management principles. Similarly, Azhar Cholil (2021) explains that financial performance measures a firm's ability to manage liquidity, capital structure, and profitability over a specific period. Strong financial performance signals a healthy financial condition and positive future prospects, thereby attracting investors and increasing firm value (Harinurdin, 2023). Consequently, comprehensive performance measurement is essential to ensure long-term competitiveness and sustainability, particularly in increasingly dynamic and uncertain business environments.

Environmental Cost

Environmental cost is a key component of sustainable business management. It refers to all expenditures incurred by a firm to prevent, reduce, or remediate environmental damage resulting from its operational activities (Aripin & Negara, 2021). These costs include both internal expenditures (such as pollution control and waste management) and external expenditures (such as environmental restoration and compensation). Companies often disclose environmental costs as a signal of their commitment to sustainability. Although such costs may reduce profitability in the short term, they can generate long-term benefits, including improved operational efficiency, reduced environmental risk, enhanced corporate reputation, and increased stakeholder trust. Environmental costs encompass activities such as pollution control, waste management, and environmental restoration (Ladyve et al., 2021), as well as costs related to the prevention, detection, and correction of environmental degradation (Fadillah et al., 2023). Therefore, environmental cost should not be viewed merely as an expense, but as a strategic investment that contributes to long-term firm value and sustainability. However, in practice particularly in emerging markets environmental costs are often still treated as compliance-driven expenditures rather than value-creating investments.

Audit Committee

The audit committee is an integral component of the corporate governance structure, responsible for overseeing financial reporting, audit processes, and compliance with applicable regulations. It consists of independent members appointed by the board of commissioners and plays a crucial role in ensuring the integrity and objectivity of financial reporting. In line with Good Corporate Governance (GCG) principles, the audit committee ensures the fair presentation of financial statements, strengthens internal control systems, and monitors the implementation of audit recommendations (Fitri Nurjanah et al., 2025). An effective audit committee enhances transparency, accountability, and credibility, thereby safeguarding stakeholder interests (Helmi et al., 2024). Moreover, the audit committee contributes to risk management, fraud prevention, and regulatory compliance, thereby reinforcing overall governance quality. According to BAPEPAM Regulation No. Kep-643/BL/2012, the audit committee must consist of at least three members, including an independent commissioner and non-affiliated parties. This requirement underscores that the audit committee is not merely a formal governance structure but a strategic mechanism intended to support transparency, accountability, and corporate efficiency. Nevertheless, its effectiveness is contingent upon qualitative factors such as expertise, independence, and the intensity of oversight activities, rather than merely its size.

Hypothesis

The Effect of Environmental Cost on Financial Performance

Based on Stakeholder Theory, companies that allocate environmental costs as a form of responsibility toward environmental stakeholders are expected to gain legitimacy, enhance corporate reputation, and ultimately improve financial performance. Companies are required not only to maintain relationships with shareholders but also with broader stakeholders, including society and government, as the environmental impacts of corporate operations directly affect these parties. Therefore, firms need to allocate resources to environmental costs as a form of

accountability for potential environmental damage arising from their operational activities. Environmental expenditures may contribute to regulatory compliance, long-term cost efficiency, and improved corporate reputation, which can lead to competitive advantages. Conversely, neglecting environmental costs may result in higher future expenditures due to unrecorded or unmanaged environmental impacts (Wulandari et al., 2023). Empirical evidence supports this argument. Sari (2023) and Ramadhana and Setiawan (2024) find that higher environmental expenditures improve corporate image and stakeholder perception, which subsequently enhance financial performance. However, it is important to note that while environmental costs may generate long-term economic benefits, they can also reduce profitability in the short term.
Based on this reasoning, the following hypothesis is proposed:
H1: Environmental Cost has a positive effect on Financial Performance.

The Effect of the Audit Committee on Financial Performance

Based on Agency Theory, the presence of an effective audit committee reduces information asymmetry between management and shareholders through independent monitoring. This monitoring function is expected to improve the quality of financial reporting and positively influence financial performance. The audit committee is a key mechanism of Good Corporate Governance (GCG) that oversees financial reporting, internal and external audit processes, and regulatory compliance. By functioning as an intermediary between management and external stakeholders, the audit committee enhances transparency, strengthens accountability, and mitigates agency conflicts. An independent and competent audit committee is more likely to improve the reliability of financial statements, reduce the risk of misstatements and earnings management, and increase stakeholder confidence. This increased confidence may positively influence investment decisions and, ultimately, financial performance. Empirical studies also support this relationship. Syadeli and Sa'adah (2021) and Addina et al. (2023) find that audit committee effectiveness contributes to improved efficiency and credibility of financial reporting. Nevertheless, it should be emphasized that the effectiveness of the audit committee depends not only on its existence or size, but also on qualitative aspects such as expertise, independence, and the intensity of oversight.
Based on this explanation, the following hypothesis is proposed:
H2: Audit Committee has a positive effect on Financial Performance.

The Effect of Environmental Cost and the Audit Committee on Corporate Performance

Previous studies have generally examined the effects of environmental cost and audit committee on financial performance separately. However, empirical research integrating both variables within a single model remains limited. From the perspective of Stakeholder Theory, environmental cost allocation reflects corporate responsibility toward society and the environment, which can enhance legitimacy and stakeholder trust. Meanwhile, Agency Theory emphasizes the role of the audit committee as an independent monitoring mechanism that improves transparency and reduces information asymmetry. The integration of environmental cost (as a sustainability dimension) and audit committee effectiveness (as a governance dimension) may create a synergistic effect that enhances corporate legitimacy, transparency, and accountability. This synergy is theoretically expected to strengthen firm competitiveness and support long-term financial performance (Firdaus et al., 2025).

However, similar to the individual effects, this relationship may not be immediately observable in the short term, as both environmental investments and governance mechanisms tend to produce delayed (lagged) impacts on financial performance.
Based on this reasoning, the following hypothesis is proposed:
H3: Environmental Cost and Audit Committee simultaneously have a positive effect on Financial Performance.

The framework of thought in this research can be in Figure 1, as follows:

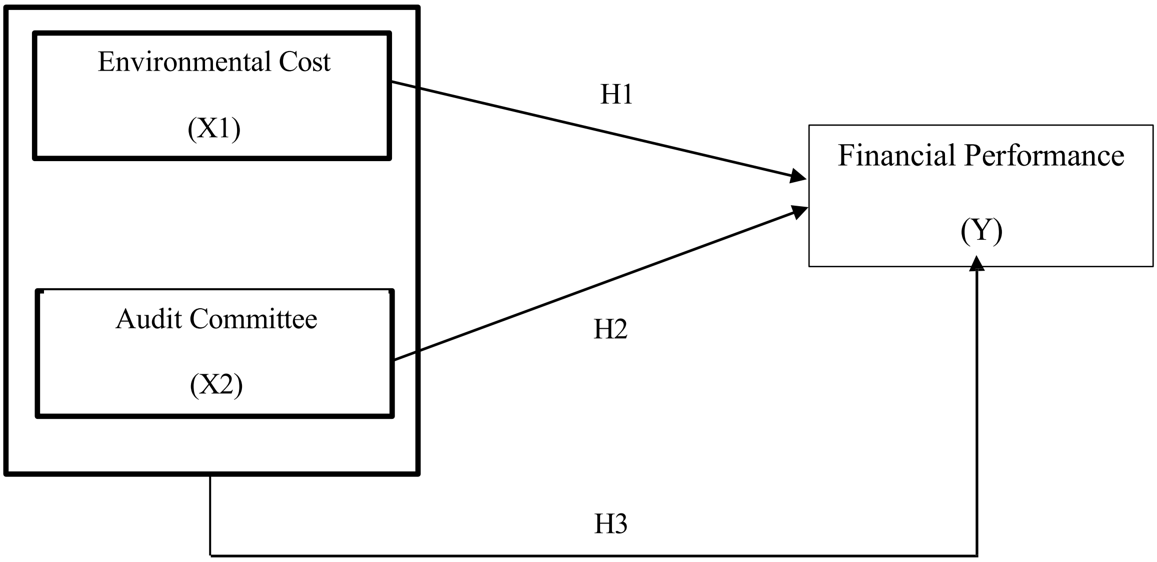


Figure 1
Conceptual Framework

RESEARCH METHOD

This study employs a quantitative research approach, utilizing a structured research model and numerical data analysis supported by statistical testing techniques. Quantitative methods are appropriate for examining relationships among variables and empirically testing the proposed hypotheses (Ferinia, 2023; Djaali, 2021). The data used in this study are secondary data obtained from the annual reports and sustainability reports of companies listed on the Main Board of the Indonesia Stock Exchange (IDX). The observation period is limited to the 2024 fiscal year. The sample selection was conducted using a purposive sampling technique based on predetermined criteria aligned with the research objectives. A total of 173 companies met the sampling criteria and were included in the analysis. These firms represent large-capitalization companies listed on the Main Board Index, which are generally characterized by more established financial performance and more structured corporate governance practices.

Table 1
Sample Selection

No	Criteria	Number of Companies
1.	Companies listed on the Main Board of the Indonesia Stock Exchange (IDX)	257
2.	Companies that did not consecutively publish financial statements, annual reports, and sustainability reports during the year 2024.	(18)
3.	Companies that were delisted during the research period.	(75)
4.	Number of Companies Studied	164
5.	Final Research Sample (257 × 1 year)	164

Source**:** Data processed by the researcher, 2025

Operational Definitions

This study involves three variables, which are defined operationally. Financial Performance is treated as the dependent variable, while Environmental Cost and Audit Committee are classified as independent variables. The operational definitions and measurements of each variable are presented in Table 2.

Table 2

Operational Definitions and Measurement of Variables

Variabel	Operational Definitions	Indicators	Scale
Financial Performance (Y)	**ROA (Return on Assets)** is a profitability ratio that indicates a company's ability to generate profit through the utilization of its assets.(Syadeli and Sa'adah 2021)	Return Of Asset (ROA) : $\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	Ratio
Environmental Cost (X1)	Environmental Cost is defined as a company's investment to reduce the risk of environmental damage and the decline in environmental quality resulting from its operational activities.(Sari 2023)	Environmental Cost: $\frac{\text{Environmental Cost}}{\text{Net Profit After Tax}}$	Ratio
Audit Committee (X2)	The size of the audit committee is determined by calculating the total number of audit committee members within the company. It reflects the committee's capacity to oversee financial reporting and internal control processes.(Widyari, Novitasari, and Widhiastuti 2022)	Audit Committee : ∑ Anggota Komite Audit	Ratio

Data Analysis Techniques

The variables in this study were analyzed using multiple linear regression methods, which include descriptive statistics, regression analysis, hypothesis testing, and classical assumption tests. The data processing was carried out using SPSS version 26.

The regression model used in this study is formulated as follows:

$$ROA = \alpha + \beta 1EC + \beta 2AC + \varepsilon$$

Where:

ROA = Financial Performance
EC = Environmental Cost
AC = Audit Committee
α = Constant
β = Regression Coefficient
ε = Error Term

RESULTS AND DISCUSSION

The research findings are supported by several statistical analyses, including descriptive statistics, normality tests, heteroscedasticity tests, multiple linear regression analysis, coefficient of determination (R^2), partial t-tests, and simultaneous F-tests. All data were processed using SPSS (Statistical Package for the Social Sciences) version 26.

Descriptive Statistics Test

Descriptive statistics are used to summarize and present the characteristics of the data without making inferences or generalizations beyond the sample. This analysis includes measures such as the mean, standard deviation, minimum, and maximum values. Based on Table 3, the dataset consists of 164 firm-year observations. The Environmental Cost variable ranges from 0.00 to 0.997, with a mean of 0.05 and a standard deviation of 0.145, indicating relatively low average environmental expenditure among the sampled firms. The Audit Committee variable ranges from 2 to 7 members, with a mean of 3.22 and a standard deviation of 0.607, suggesting that most firms comply with the minimum regulatory requirement regarding committee size. Meanwhile, Financial Performance, proxied by Return on Assets (ROA), ranges from 0.00 to 0.70, with a mean of 0.09 and a standard deviation of 0.105, reflecting moderate profitability with some variability across firms. Overall, the data indicate a reasonable level of variation and adequately represent the characteristics of the sample.

Table 3. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Environmental Cost	164	.0000	.9974	.052900	.1448788
Audit Committee	164	2.0000	7.0000	3.219512	.6072040
Financial Performance	164	.0023	.7042	.090122	.1048565
Valid N (listwise)	164				

Source: Data processed by the researcher using SPSS v26, (2026)

Normality Test

The normality test aims to assess whether the residuals of the regression model are normally distributed. This study employs the Kolmogorov–Smirnov test.

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		164
Normal Parameters[a,b]	Mean	.1270641
	Std. Deviation	1.15960700

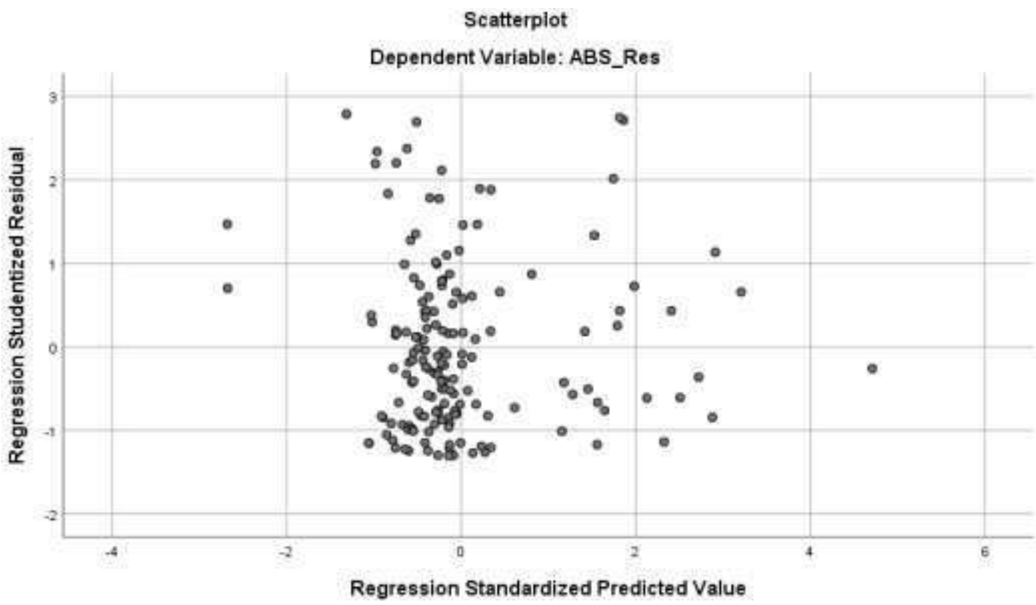
One-Sample Kolmogorov-Smirnov Test			
Most Extreme Differences	Absolute		.100
	Positive		.047
	Negative		-.100
Test Statistic			.100
Asymp. Sig. (2-tailed)			.000[c]
Monte Carlo Sig.	Sig.		.071[d]
(2-tailed)	99% Confidence Interval	Lower Bound	.064
		Upper Bound	.077

Source: Data processed by the researcher using SPSS v26, (2026)

Based on Table 4, the significance value is 0.071 (> 0.05), indicating that the residuals are normally distributed. Therefore, the regression model satisfies the normality assumption.

Heteroscedasticity Test

The heteroskedasticity test is conducted using a scatterplot to examine whether residual variance is constant across observations. The scatterplot shows that the residuals are randomly distributed and do not form a specific pattern. Thus, the model does not exhibit heteroskedasticity and satisfies the homoskedasticity assumption.



Source: Data processed by the researcher using SPSS v26, (2026)

Figure 2
Heteroscedasticity Test

Multiple Linear Regression Analysis

To determine the multiple regression equation of the effect of Environmental Cost and the Audit Committee on Financial Performance, the regression coefficients are analyzed as follows:

Financial Performance = a + b1 Environmental Cost + b2 Audit Committee

Financial Performance = -2.862 + 0.009 Environmental Cost − 0.029 Audit Committee

Table 7
Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-2.862	.668		-4.285	.000
	Environmental Cost	.009	.036	.020	.250	.803
	Audit Committee	-.029	.576	-.004	-.050	.960

Source: Data processed by the researcher using SPSS v26, (2026)

Based on Table 7, which shows the results of the multiple linear regression test, the regression equation obtained is as follows:

Financial Performance = -2.862 + 0.009 Environmental Cost − 0.029 Audit Committee

This equation illustrates the relationship between the Environmental Cost variable (X1) and the Audit Committee variable (X2) with Financial Performance (Y). The constant value of -2.862 indicates that if Environmental Cost and the Audit Committee are considered constant or equal to zero, the Financial Performance value would be -2.862. The regression coefficient for Environmental Cost (X1) of 0.009 indicates that each one-unit increase in Environmental Cost will increase Financial Performance by 0.009, assuming the Audit Committee variable remains constant. Meanwhile, the regression coefficient for the Audit Committee (X2) of -0.029 indicates that each one-unit increase in the Audit Committee will decrease Financial Performance by 0.029, assuming the Environmental Cost variable remains constant.

Coefficient of Determination Test

Table 8
Coefficient of Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.021[a]	.000	-.012	1.15111

Source: Data processed by the researcher using SPSS v26, (2026)

The R^2 value is 0.000, indicating that the independent variables included in the model explain virtually none of the variation in Financial Performance. This suggests that other variables outside the model play a more dominant role in determining firm performance.

Partial t-Test

The partial t-test is used to determine whether each independent variable has a significant effect on the dependent variable in multiple linear regression, while controlling for the other independent variables. This test assesses the contribution of each variable individually to the dependent variable

Table 9

Partial t-Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.862	.668		-4.285	.000
	Environmental Cost	.009	.036	.020	.250	.803
	Audit Committee	-.029	.576	-.004	-.050	.960

Source: Data processed by the researcher using SPSS v26, (2026)

Based on Table 9, which shows the results of the partial t-test, it is known that the Environmental Cost variable (X1) has a t-value of 0.250, which is smaller than the t-table value of 1.975, with a significance level of 0.803 (>0.05). This indicates that Environmental Cost does not have a significant effect on Financial Performance. Furthermore, the Audit Committee variable (X2) has a t-value of -0.050, which is also smaller than the t-table value of 1.975, with a significance level of 0.960 (>0.05). Therefore, it can be concluded that the Audit Committee also does not have a significant effect on Financial Performance.

Simultaneous F-Test

The simultaneous F-test is used to determine whether all independent variables collectively have a significant effect on the dependent variable in multiple linear regression. This test examines whether all the regression coefficients are simultaneously equal to zero.

Table 10
Simultaneous F-Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.094	2	.047	.035	.965[b]
	Residual	213.335	161	1.325		
	Total	213.428	163			

Source: Data processed by the researcher using SPSS v26, (2026)

Based on the data analysis results, the Environmental Cost variable shows a significance value of 0.803, which is far above the 0.05 threshold, with a t-value of 0.250. These findings empirically demonstrate that the allocation of environmental costs does not have a real contribution to fluctuations in financial performance (ROA) for companies on the Main Board of the IDX. Theoretically, although Stakeholder Theory predicts that environmental concern will enhance corporate profitability through public legitimacy, field reality shows that environmental costs are still viewed as purely operational expenses that actually suppress short-term profitability.

The findings indicate that Environmental Cost does not significantly affect Financial Performance. Although Stakeholder Theory suggests that environmental responsibility enhances legitimacy and profitability, the results imply that, in practice, environmental expenditures are primarily treated as compliance costs rather than strategic investments.

This condition is particularly evident in developing markets such as Indonesia, where environmental spending tends to be reactive and regulatory-driven rather than value-creating. As a result, such expenditures do not generate immediate financial returns and therefore do not significantly influence profitability in the short term.

Similarly, the Audit Committee variable does not show a significant effect on Financial Performance. From an Agency Theory perspective, this suggests that the audit committee may not function effectively as a monitoring mechanism. Instead, its existence tends to be formalistic, fulfilling regulatory requirements rather than contributing substantively to governance quality

This phenomenon reflects what can be described as “form over substance,” where governance structures exist but lack effectiveness in influencing firm outcomes. The size of the audit committee alone is insufficient to capture its effectiveness, as factors such as expertise, independence, and meeting frequency are more critical.

Furthermore, the simultaneous test confirms that both variables jointly do not affect Financial Performance. The extremely low R^2 value reinforces that firm performance, particularly for large-cap companies, is largely driven by external and macroeconomic factors, such as market conditions, industry dynamics, and commodity price fluctuations.

Additionally, the impact of environmental investment and governance mechanisms is likely to exhibit a long-term lag effect, which cannot be captured in a single-year observation. Therefore, the insignificance of these variables in this study does not necessarily imply irrelevance but rather highlights the limitations of short-term empirical measurement.

CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Conclusion

Based on the empirical findings, Environmental Cost and Audit Committee, both partially and simultaneously, do not have a significant effect on the financial performance of companies listed on the Main Board of the Indonesia Stock Exchange. These results indicate that environmental expenditures in Indonesia are predominantly compliance-oriented and have not yet been strategically managed to generate measurable financial returns in the short term.

Furthermore, the audit committee does not demonstrate a significant role in influencing financial performance, suggesting that its function tends to be more formalistic than substantive. This implies that the mere existence or size of the audit committee is insufficient to enhance firm performance without being supported by effectiveness in terms of expertise, independence, and oversight quality.

Overall, the findings suggest that the financial performance of large-capitalization firms is more strongly influenced by external factors, such as macroeconomic conditions and market dynamics, rather than the internal governance and environmental variables examined in this study.

Limitations

This study has several limitations. First, the observation period is limited to a single year, which restricts the ability to capture the long-term effects of environmental cost and audit committee on financial performance. Second, the measurement of variables relies on relatively simple proxy indicators. In particular, the audit committee is measured based solely on size, which may not adequately reflect its actual effectiveness, such as meeting frequency, expertise, and independence. Therefore, these findings should be interpreted with caution, particularly when generalizing across different contexts and time horizons.

Suggestions

Future research is recommended to extend the observation period in order to capture the long-term and lagged effects of environmental investment and corporate governance mechanisms on financial performance. Additionally, more comprehensive proxy variables should be employed, such as audit committee meeting frequency, financial expertise, and independence, as well as moderating or mediating variables to improve the explanatory power of the model.

From a theoretical perspective, these findings highlight the need to refine the relationship between environmental cost, audit committee, and financial performance by incorporating broader frameworks within sustainability and corporate governance, particularly in emerging market contexts. From a practical perspective, companies are encouraged to shift their perspective on environmental expenditures from compliance-based costs toward strategic investments that enhance long-term firm value. In addition, firms should improve the effectiveness of audit committees by strengthening their competence, independence, and active involvement in oversight functions. From a policy perspective, regulators are expected to enhance supervision and promote more substantive implementation of corporate governance practices, as well as improve transparency and standardization in environmental cost reporting to increase its relevance and impact on corporate performance.

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