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ANALYSIS OF THE IMPACT OF INTEGRATING SUSTAINABILITY REPORTING INTO TRADITIONAL FINANCIAL STATEMENTS

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Abstract

This study examines the increasing importance of integrating sustainability considerations into corporate governance and reporting practices. As global business environments continue to evolve, companies are required not only to focus on financial performance but also to address the social and environmental impacts of their operations. In response to growing stakeholder demands for sustainability transparency, the establishment of sustainability committees has emerged as a key governance mechanism to enhance the credibility and quality of sustainability reporting. However, in practice, the function of sustainability committees often remains separated from traditional financial reporting processes, potentially creating information gaps that may impair decision-making quality. This study aims to analyze the impact of integrating sustainability committees into traditional financial reporting on information quality, stakeholder perceptions and trust, and overall company performance. A quantitative approach is employed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) to examine both direct and indirect relationships among variables, including the mediating roles of information quality and stakeholder perceptions. The literature suggests that stronger sustainability governance through such integration improves the relevance, reliability, and completeness of corporate disclosures. In addition, sustainability committees contribute to more positive stakeholder perceptions, which in turn enhance firm performance and value. The proposed conceptual model posits that the integration of sustainability committees positively influences information quality and stakeholder perceptions, which subsequently affect company performance, both directly and indirectly. This study contributes to the development of integrated sustainability reporting literature and provides practical implications for companies and regulators in strengthening accountability and transparency, particularly in the Indonesian context.

Keywords: Sustainability Committee; Financial Statements; Integrated Reporting; Information Quality; Stakeholders

Abstrak

Penelitian ini mengkaji semakin pentingnya mengintegrasikan pertimbangan keberlanjutan ke dalam tata kelola perusahaan dan praktik pelaporan. Seiring dengan terus berkembangnya lingkungan bisnis global, perusahaan tidak hanya dituntut untuk *berfokus pada kinerja keuangan, tetapi juga menangani dampak sosial dan lingkungan dari operasional mereka. Menanggapi tuntutan pemangku kepentingan yang semakin meningkat akan transparansi keberlanjutan, pembentukan komite keberlanjutan telah muncul sebagai mekanisme tata kelola utama untuk meningkatkan kredibilitas dan kualitas pelaporan keberlanjutan. Namun, dalam praktiknya, fungsi komite keberlanjutan sering kali tetap terpisah dari proses pelaporan keuangan tradisional, yang berpotensi menciptakan kesenjangan informasi yang dapat mengganggu kualitas pengambilan keputusan. Penelitian ini bertujuan untuk menganalisis dampak integrasi komite keberlanjutan ke dalam pelaporan keuangan tradisional terhadap kualitas informasi, persepsi dan kepercayaan pemangku kepentingan, serta kinerja perusahaan secara keseluruhan. Pendekatan kuantitatif digunakan dengan Model Persamaan Struktural–Partial Least Squares (SEM-PLS) untuk menganalisis hubungan langsung dan tidak langsung antar variabel, termasuk peran mediasi kualitas informasi dan persepsi pemangku kepentingan. Literatur menunjukkan bahwa tata kelola keberlanjutan yang lebih kuat melalui integrasi tersebut meningkatkan relevansi, keandalan, dan kelengkapan pengungkapan korporat. Selain itu, komite keberlanjutan berkontribusi pada persepsi pemangku kepentingan yang lebih positif, yang pada gilirannya meningkatkan kinerja dan nilai perusahaan. Model konseptual yang diusulkan menyatakan bahwa integrasi komite keberlanjutan secara positif memengaruhi kualitas informasi dan persepsi pemangku kepentingan, yang selanjutnya memengaruhi kinerja perusahaan, baik secara langsung maupun tidak langsung. Penelitian ini berkontribusi pada pengembangan literatur pelaporan keberlanjutan terintegrasi dan memberikan implikasi praktis bagi perusahaan dan regulator dalam memperkuat akuntabilitas dan transparansi, khususnya dalam konteks Indonesia.*

Keywords : *Sustainability Committee; Laporan Keuangan; Integrasi Pelaporan, Kualitas Informasi; Stakeholder*

JEL Classification : M41, M14, Q56, G32

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INTRODUCTION

The shift in the global business paradigm has driven companies to move beyond a sole focus on financial performance toward a broader consideration of the environmental and social impacts of their operational activities. Increasing pressure from stakeholders—including investors, regulators, and society—has intensified the demand for the implementation of sustainable governance practices that ensure transparency, accountability, and effective risk management. Within this context, the establishment of a sustainability committee has emerged as an important governance mechanism that supports organizational oversight in managing sustainability-related issues. This committee plays a strategic role not only in formulating and guiding sustainability strategies and policies but also in enhancing the quality, consistency, and transparency of environmental and social disclosures. Furthermore, sustainability committees contribute to the integration of Environmental, Social, and Governance (ESG) aspects into corporate reporting practices, thereby promoting more comprehensive, balanced, and decision-useful disclosures for stakeholders (Driss et al., 2024).

Traditionally, financial reporting has focused primarily on historical financial performance and monetary transactions, often failing to capture material sustainability-related risks and opportunities that may affect long-term firm value. This limitation has led to a growing need to integrate sustainability-related information into corporate reporting frameworks. However, such integration does not imply merging sustainability reports directly into financial statements; rather, it involves aligning and complementing financial reporting with sustainability disclosures through integrated reporting practices. In this regard, the role of the sustainability committee becomes critical in ensuring the credibility and quality of non-financial information produced by the organization. The committee enhances oversight of the sustainability reporting process, ensuring that disclosed information is relevant, reliable, and consistent across reporting periods. Peters and Romi (2015) found that strong sustainability governance structures, including the presence of sustainability committees, are positively associated with the adoption of sustainability assurance practices, which in turn enhance the credibility and quality of sustainability disclosures. Accordingly, this study aims to examine the impact of integrating sustainability committees into corporate reporting processes on (1) reporting information quality, (2) stakeholder perception and trust, and (3) firm performance. In addition, this study investigates the mediating roles of information quality and stakeholder perception in explaining the relationship between sustainability governance and firm performance.

A growing body of international literature suggests that the effectiveness of sustainability governance significantly influences the quality of corporate reporting. Qaderi et al. (2022) found that companies with dedicated sustainability committees tend to produce higher-quality sustainability disclosures due to more structured oversight and governance mechanisms. Improved disclosure quality, in turn, enhances stakeholder perceptions, particularly regarding a company's commitment to sustainable practices and ethical conduct. Moreover, sustainability committees have been shown to contribute to improvements in integrated reporting quality, especially in industries characterized by high environmental and social risks (Mshana, 2024). The presence of such committees is also interpreted as a positive governance signal by the market, thereby increasing investor confidence and strengthening corporate reputation (Peters & Romi, 2015). Collectively, these findings indicate that sustainability committees function not only as internal governance mechanisms but also as external signaling tools that influence stakeholder evaluations.

This study offers a significant contribution by addressing the limited integration between sustainability governance mechanisms and corporate reporting systems. Unlike prior studies that predominantly focus on the existence of sustainability committees, this research emphasizes how these committees are substantively integrated into reporting processes and governance practices. The novelty of this study lies in examining both direct and indirect (mediated) relationships within a comprehensive analytical framework, particularly by incorporating the roles of information quality and stakeholder perception as intervening variables. Additionally, this study is situated in the Indonesian context, an emerging market characterized by unique institutional and regulatory environments, thereby providing contextual insights that remain relatively underexplored in the existing literature.

In Indonesia, the Financial Services Authority (Otoritas Jasa Keuangan/OJK) through POJK No. 51/POJK.03/2017 mandates public companies to prepare sustainability reports as part of their accountability to stakeholders. Although the regulation does not explicitly require the establishment of a sustainability committee, the increasing tendency of large corporations to form such committees reflects a growing awareness of the importance of ESG governance. This trend indicates that companies are voluntarily adopting governance mechanisms to enhance the credibility and quality of sustainability disclosures. Empirical evidence from national studies also shows that the presence of sustainability committees is associated with companies' decisions to engage in sustainability assurance practices, which further strengthens the reliability and credibility of reported information (Utami, 2024). This condition underscores the relevance of examining sustainability governance practices within the Indonesian regulatory framework.

Despite the increasing attention to sustainability governance, several important research gaps remain. First, existing studies tend to focus on the existence of sustainability committees rather than examining how these committees are integrated into corporate reporting processes and decision-making structures. Second, the mediating mechanisms through which sustainability governance influences firm performance are still not well understood, particularly in relation to information quality and stakeholder perception. Third, empirical evidence from emerging markets, including Indonesia, remains limited, despite differences in institutional settings and regulatory frameworks that may influence governance effectiveness. Therefore, this study seeks to address these gaps by developing an integrated research model that captures both direct and indirect relationships among sustainability governance, reporting quality, stakeholder perception, and firm performance.

This study contributes to the literature in several important ways. From a theoretical perspective, it enriches the sustainability accounting and corporate governance literature by integrating stakeholder theory, legitimacy theory, signaling theory, and information asymmetry theory into a unified analytical framework. From a practical perspective, the findings provide insights for corporate management regarding the importance of strengthening sustainability governance mechanisms to improve reporting quality, enhance stakeholder trust, and ultimately support better organizational performance. From a policy perspective, this study offers relevant implications for regulators, particularly in evaluating and refining the effectiveness of sustainability-related regulations such as POJK No. 51/POJK.03/2017 in promoting transparency and accountability in corporate reporting practices.

Therefore, this study aims to examine the impact of integrating sustainability committees into corporate reporting processes on (1) reporting information quality, (2) stakeholder perception and trust, and (3) firm performance. In addition, this study analyzes the mediating roles of information quality and stakeholder perception in explaining these relationships. By adopting a comprehensive and integrative approach, this research is expected to provide a more holistic understanding of how sustainability governance mechanisms contribute to organizational performance and accountability. Ultimately, this study seeks to offer both theoretical advancement and practical guidance for enhancing sustainability governance and reporting practices, particularly within the context of emerging economies such as Indonesia.

LITERATURE REVIEW AND HYPOTHESES

This study draws upon recent empirical findings published within the last five years to ensure the relevance and timeliness of the analysis. Key references include studies by Driss et al. (2024), Mshana (2024), García-Sánchez et al. (2022), and Ruiz-Barbadillo and Martínez-Ferrero (2024), all of which emphasize the increasing importance of sustainability committees in enhancing the quality of ESG disclosures and improving overall corporate performance. Collectively, these studies indicate that sustainability committees play a critical role in strengthening sustainability governance and reporting practices. By relying on recent literature, this study captures contemporary developments in sustainability governance and reflects current practices in both developed and emerging markets.

Theoretical Foundations

The sustainability committee is a specialized governance body within the corporate structure that is responsible for overseeing sustainability strategies, integrating environmental, social, and governance (ESG) considerations into corporate decision-making processes, and ensuring the quality and credibility of sustainability reporting. Kotsantonis and Serafeim (2021) explain that the establishment of a sustainability committee represents a strategic organizational response to increasing pressure from stakeholders including investors, regulators, and society who demand greater accountability and transparency regarding sustainability-related issues. Through this role, the sustainability committee ensures that ESG considerations are not treated as peripheral concerns but are embedded within core strategic and operational decisions.

The presence of a sustainability committee also strengthens corporate governance mechanisms by enhancing oversight of ESG-related risks and improving the reliability of sustainability disclosures. Empirical evidence provided by García-Sánchez et al. (2022) demonstrates that firms with sustainability committees exhibit significantly higher levels of ESG disclosure quality and transparency compared to firms without such governance structures. These findings indicate that sustainability committees contribute to strengthening internal control systems, reducing opportunistic disclosure behavior, and enhancing the credibility of reported ESG information. Consequently, sustainability committees function as important governance instruments that align corporate practices with stakeholder expectations and regulatory requirements.

Sustainability Committee and Integration of Sustainability Reporting

The integration of sustainability reporting into corporate reporting frameworks requires a robust and well-coordinated governance structure. It is important to clarify that such integration does not imply merging sustainability information directly into financial statements; rather, it refers to the alignment and interconnection between financial and non-financial disclosures through integrated reporting practices. In this context, the sustainability committee plays a crucial role in ensuring that non-financial information is systematically aligned with financial information, thereby supporting a more comprehensive and forward-looking representation of the company’s performance.

Research conducted by Caglio, Cameran, and Pettinicchio (2023) indicates that the presence of a sustainability committee plays a critical role in enhancing a company’s readiness to adopt integrated reporting practices. The committee facilitates coordination among key organizational functions, including finance, internal audit, and sustainability departments, thereby enabling more effective communication and integration of relevant information. This coordination enhances the consistency and comparability of disclosures, which are essential for stakeholders in assessing long-term value creation.

In addition, the sustainability committee plays a critical role in assessing ESG materiality, ensuring that disclosed sustainability issues are economically relevant and aligned with the company’s strategic priorities. Velte (2022) emphasizes that an active and well-functioning sustainability committee contributes to improving ESG reporting quality, particularly through a more rigorous and transparent materiality determination process. The clear identification of material issues enables companies to produce sustainability disclosures that are more accurate, decision-useful, and consistent with international reporting standards. As a result, the integration process supported by the sustainability committee enhances not only reporting quality but also the credibility of corporate communication.

The Influence of the Sustainability Committee on Reporting Quality

The existence of a sustainability committee plays a critical role in improving the quality of sustainability reporting and the effectiveness of ESG integration within corporate governance practices. One of its key contributions lies in strengthening internal verification processes and reducing the risk of greenwashing, which remains a major concern in sustainability disclosures. Ruiz-Barbadillo and Martínez-Ferrero (2024) find that sustainability committees characterized by a high level of independence and the presence of members with specialized ESG expertise significantly enhance the credibility and objectivity of sustainability reporting.

Such governance structures help minimize managerial bias in the preparation and disclosure of ESG information, ensuring that reports reflect actual organizational performance rather than symbolic compliance. Moreover, the presence of sustainability committees encourages greater board involvement in sustainability-related issues. Chapple, Clarkson, and Gold (2021) provide empirical evidence that strong sustainability governance, including the establishment of sustainability committees, positively influences the integrity of sustainability reporting and improves stakeholders’ perceptions of corporate transparency. Collectively, these findings reinforce the view that sustainability committees function as both monitoring and assurance mechanisms within the broader governance system.

The Relevance of Sustainability Committees in the Context of Global and Indonesian Regulations

The increasing global emphasis on sustainability reporting, particularly following the establishment of the International Sustainability Standards Board (ISSB) standards in 2023, has intensified the need for governance structures that support high-quality ESG disclosures. Companies are now required to provide more transparent, consistent, and comparable sustainability information, which necessitates the presence of dedicated governance mechanisms. In this regard, sustainability committees play a strategic role in ensuring that sustainability policies, risk assessments, and disclosures are properly aligned with corporate reporting practices. Importantly, their role is not to merge sustainability data into financial statements, but to ensure coherence, consistency, and connectivity between financial and sustainability information.

In the Indonesian context, sustainability reporting requirements mandated by the Financial Services Authority (Otoritas Jasa Keuangan/OJK) through POJK No. 51/POJK.03/2017 have increased the relevance of sustainability governance mechanisms. Although the regulation does not explicitly require the establishment of sustainability committees, the growing trend among corporations to form such committees reflects an adaptive response to regulatory expectations and stakeholder demands. Sustainability committees assist organizations in enhancing their readiness to comply with increasingly stringent reporting requirements, particularly for financial institutions and publicly listed companies. By strengthening internal coordination and governance oversight, these committees contribute to improving the alignment between sustainability disclosures and financial reporting, thereby supporting greater transparency, accountability, and long-term value creation.

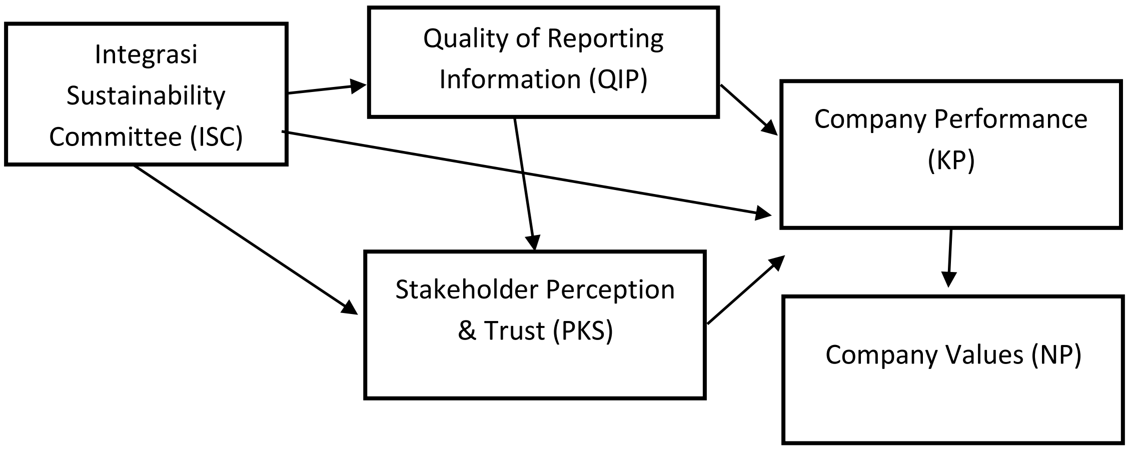

Fig.1 Conceptual Framework

Figure 1 illustrates the theoretical framework of this study, which integrates Stakeholder Theory, Legitimacy Theory, and Signaling Theory to explain the relationships among sustainability committee integration, reporting quality, stakeholder perception, and firm performance. These theoretical perspectives provide a comprehensive foundation for understanding how sustainability governance mechanisms influence both internal reporting processes and external stakeholder evaluations.

Each hypothesis in this study is developed based on strong theoretical underpinnings, particularly stakeholder theory, signaling theory, and legitimacy theory. These theories collectively explain how governance structures, such as sustainability committees, function not only as internal control mechanisms but also as signaling devices that shape stakeholder perceptions and enhance organizational legitimacy. Consequently, the proposed relationships are conceptually grounded and empirically testable within the context of corporate governance and sustainability reporting.

Hypothesis Development

The integration of sustainability committees into corporate reporting processes encourages the implementation of more rigorous review mechanisms, structured ESG materiality assessments, and stronger cross-functional coordination in report preparation. It is important to emphasize that this integration refers to the alignment and connectivity between financial and non-financial reporting, rather than the direct incorporation of sustainability information into financial statements. The presence of a sustainability committee ensures that sustainability-related disclosures are not merely symbolic, but instead are relevant, reliable, and reflective of material issues affecting the company's long-term value. Prior literature indicates that the alignment between sustainability governance mechanisms and reporting processes enhances disclosure consistency and reduces managerial bias, thereby improving overall reporting quality (Kotsantonis & Serafeim, 2021; García-Sánchez et al., 2022). Accordingly, the integration of the sustainability committee is expected to positively influence the quality of reporting information.

H1. The integration of the Sustainability Committee (ISC) has a significant positive effect on the Quality of Information Reporting (QIP).

The establishment of a sustainability committee is widely perceived as a strong signal of management's commitment to ESG practices. The presence of an integrated sustainability committee (ISC) indicates that the company positions sustainability as a core component of its governance structure rather than as a symbolic or superficial activity, such as greenwashing. From the perspectives of signaling theory and legitimacy theory, robust governance structures enhance corporate credibility and strengthen stakeholder confidence. Empirical evidence suggests that an active sustainability committee reflected in meeting frequency, decision-making authority, and member expertise plays an important role in shaping positive perceptions among investors, regulators, and the public (Peters & Romi, 2015; Driss et al., 2024). Therefore, the integration of the sustainability committee is expected to improve stakeholder perception and trust.

H2. The integration of the Sustainability Committee (ISC) has a significant positive effect on Stakeholder Perception & Trust (SPT).

High-quality reporting information, characterized by relevance, reliability, comparability, and completeness, enables stakeholders to evaluate corporate risks, future prospects, and sustainability strategies more accurately. Such information reduces information asymmetry and enhances stakeholders' confidence in management's transparency and objectivity. Prior studies indicate that improvements in reporting quality contribute to increased investor confidence and more favorable stakeholder perceptions (Velte, 2022). Therefore, higher reporting quality is expected to positively influence stakeholder perception and trust.

H3. Quality of Information Reporting (QIP) has a significant positive effect on Stakeholder Perception & Trust (SPT).

High-quality reporting information supports more effective decision-making by both management and investors, particularly in relation to capital allocation, risk management, and strategic planning. Improved reporting quality also reduces the cost of capital by lowering information risk and enhancing transparency. Empirical findings indicate that firms with higher reporting quality tend to achieve better operational efficiency and stronger financial performance (Caglio et al., 2023). Accordingly, reporting quality is expected to have a positive impact on firm performance.

H4. Quality of Information Reporting (QIP) has a significant positive effect on Company Performance (CP).

High levels of stakeholder trust reduce transaction costs, facilitate access to external financing, and enhance customer loyalty as well as investor preference. From the perspective of stakeholder theory, corporate reputation and legitimacy contribute to the sustainability of long-term relationships, which ultimately support improved organizational performance. Empirical evidence shows that positive stakeholder perceptions are associated with higher market valuation and improved firm performance (Chapple et al., 2021). Therefore, stakeholder perception and trust are expected to positively influence company performance.

H5. Stakeholder Perception & Trust (SPT) has a significant positive effect on Company Performance (CP).

In addition to indirect effects through reporting quality and stakeholder perception, the integration of sustainability committees may also exert a direct influence on firm performance. Sustainability committees play a strategic role in guiding environmentally responsible investments, strengthening environmental risk management, and ensuring compliance with sustainability standards. These governance functions contribute to cost efficiency, innovation, and the mitigation of reputational risks, all of which are critical determinants of firm performance. Empirical studies show that strong sustainability governance mechanisms are directly associated with improved organizational performance (Mshana, 2024). Therefore, sustainability committee integration is expected to have a direct positive effect on firm performance.

H6. Sustainability Committee Integration (ISC) has a direct positive effect on Company Performance (CP).

The integration of sustainability committees is expected to improve the quality of both financial and sustainability-related disclosures through enhanced governance and oversight. Improved reporting quality, in turn, supports more effective decision-making by management and investors, ultimately contributing to improved firm performance. This mediation mechanism suggests that sustainability committees influence organizational outcomes not only directly but also indirectly through improvements in reporting processes. Therefore, the mediating role of reporting quality in the relationship between sustainability committee integration and firm performance is examined.

H7. Quality of Information Reporting (QIP) mediates the relationship between Sustainability Committee Integration (ISC) and Company Performance (CP).

The integration of sustainability committees also functions as a governance signal that enhances stakeholder perception and trust. Stakeholders who perceive a company as credible and responsible are more likely to respond positively, for example through increased investment, stronger customer loyalty, and broader market support. These positive responses subsequently contribute to improved firm performance. Therefore, stakeholder perception and trust are expected to mediate the relationship between sustainability committee integration and firm performance.

H8. Stakeholder Perception & Trust (SPT) mediates the relationship between Sustainability Committee Integration (ISC) and Company Performance (CP).

Finally, this study examines a serial mediation mechanism to capture the sequential influence of sustainability committee integration on firm performance through reporting quality and stakeholder perception. The underlying logic is that sustainability

committee integration enhances reporting quality, which subsequently improves stakeholder perception and trust, and ultimately leads to improved firm performance. Testing this serial mediation using a bootstrapping approach provides a more comprehensive understanding of the indirect pathways through which sustainability governance affects organizational outcomes. This mechanism offers deeper insight into how governance structures are translated into performance improvements.
H9. The serial mediation: ISC → QIP → SPT → CP.

RESEARCH METHODS

Research Design

This study adopts a quantitative research approach to examine the effect of sustainability committee integration within corporate governance structures on reporting information quality, stakeholder perception, and firm performance. A quantitative approach is appropriate for this study as it enables the testing of causal relationships among variables using statistical methods and allows for the generalization of findings across the observed sample. This approach is also consistent with the objective of empirically validating the proposed research model and hypotheses.

To analyze the proposed relationships, this study employs Structural Equation Modeling–Partial Least Squares (SEM-PLS) as the primary analytical technique. SEM-PLS is particularly suitable for this research because it enables the simultaneous estimation of complex relationships involving multiple endogenous variables and mediating effects. In addition, SEM-PLS does not require strict assumptions of multivariate normality and is robust for relatively moderate sample sizes, making it appropriate for this study context (Hair et al., 2017). Therefore, SEM-PLS is considered more appropriate than conventional multiple regression analysis for capturing both direct and indirect effects within the proposed structural model.

Research Population and Sample

The population of this study consists of all publicly listed companies in Indonesia that publish both sustainability reports and financial reports during the observation period. These companies are considered relevant as they provide both financial and non-financial disclosures required to operationalize the research variables.

The sampling technique employed is purposive sampling, based on the following criteria:

1. the company consistently publishes sustainability reports during the observation period;
2. the company discloses information regarding the existence or structure of a sustainability committee or an equivalent governance body; and
3. the company provides complete and accessible data for all research variables throughout the observation period.

Based on these criteria, the final sample is estimated to range between 100 and 150 firm-year observations. This sample size is considered adequate for SEM-PLS analysis, as the method is suitable for relatively small to moderate samples, provided that the minimum sample size requirement such as the “10-times rule” or more advanced statistical power considerations is satisfied.

Types and Sources of Data

This study utilizes secondary data obtained from official corporate publications and publicly accessible databases. The primary data sources include sustainability reports, annual reports, and audited financial statements issued by the sampled companies. These documents provide comprehensive information regarding ESG disclosures, corporate governance structures, and financial performance indicators.

Additional supporting data are collected from the official websites of the respective companies and from the Indonesia Stock Exchange (IDX), which serves as a reliable source of firm-level and market-related information. The observation period covers 2021–2024, enabling the study to capture recent developments in sustainability governance practices and their implications for corporate reporting and performance.

Research Regression Models

To examine the proposed relationships, this study develops a structural model consisting of both direct and indirect paths among variables. The SEM-PLS approach is used to estimate the structural relationships and test the hypotheses simultaneously.

The structural model can be conceptually expressed as follows:

1. Information Quality is influenced by Sustainability Committee Integration and control variables.
2. Stakeholder Perception is influenced by Sustainability Committee Integration and Information Quality.
3. Firm Performance is influenced by Sustainability Committee Integration, Information Quality, and Stakeholder Perception.

For robustness and additional validation, the study also presents regression-based model specifications as supporting analysis:

Model 1 – Effect of Sustainability Committee Integration on Information Quality
$INF\_QUAL=\alpha+\beta 1SC\_INT+\beta 2SIZE+\beta 3LEV+\beta 4PROF+\varepsilon$

Model 2 – Effect of Sustainability Committee Integration on Stakeholder Perception
$STK\_PERC=\alpha+\beta 1SC\_INT+\beta 2SIZE+\beta 3LEV+\beta 4AGE+\varepsilon$

Model 3 – Effect of Sustainability Committee Integration, Information Quality, and Stakeholder Perception on Firm Performance
$PERF=\alpha+\beta 1SC\_INT+\beta 2INF\_QUAL+\beta 3STK\_PERC+\beta 4SIZE+\beta 5LEV+\varepsilon$

Data Analysis Techniques

Data analysis in this study is conducted through several systematic stages to ensure the validity and reliability of the results.

First, descriptive statistical analysis is performed to provide an overview of the characteristics and distribution of each research variable, including measures such as mean, standard deviation, minimum, and maximum values.

Second, SEM-PLS analysis is conducted in two main stages. The first stage is the measurement model (outer model) evaluation, which assesses construct validity and reliability using indicator loadings, composite reliability, Cronbach's alpha, and average variance extracted (AVE). The second stage is the structural model (inner model) evaluation, which examines the relationships among variables using path coefficients, t-statistics, p-values, and coefficients of determination (R^2).

Third, hypothesis testing is conducted using the bootstrapping method to evaluate the significance of both direct and indirect effects. This method is particularly appropriate for mediation analysis, as it does not rely on normality assumptions and provides more accurate estimates of indirect effects.

To enhance the robustness of the findings, additional regression-based analyses are conducted, including classical assumption tests such as normality, multicollinearity, heteroscedasticity, and autocorrelation. These tests ensure that the regression models meet the required statistical assumptions.

Finally, mediation effects are tested using the bootstrapping procedure within SEM-PLS, which is considered more reliable and statistically rigorous compared to traditional approaches such as the Baron and Kenny method or the Sobel test. This approach allows for a direct estimation of indirect effects and provides stronger empirical evidence regarding the mediating roles of information quality and stakeholder perception in the relationship between sustainability committee integration and firm performance.

RESULTS AND DISCUSSION

The empirical results indicate that sustainability committee integration has a statistically significant and positive effect on reporting quality ($\beta = 0.421$). This finding provides strong support for stakeholder theory, which emphasizes the importance of transparency and accountability in fulfilling stakeholder expectations. The presence of an integrated sustainability committee enhances oversight and coordination within reporting processes, thereby improving the relevance, reliability, and consistency of both financial and sustainability-related disclosures. This result suggests that companies with more robust sustainability governance mechanisms are better positioned to produce high-quality information that meets the needs of diverse stakeholders.

Furthermore, the results reveal that sustainability committee integration also has a statistically significant positive effect on stakeholder perception and trust ($\beta = 0.367$). This finding is consistent with signaling theory, which posits that strong governance structures function as credible signals to external stakeholders regarding a company’s commitment to sustainability and ethical practices. The existence of a well-functioning sustainability committee indicates that sustainability is embedded as a strategic priority rather than treated as a symbolic or compliance-driven activity. Consequently, stakeholders including investors, regulators, and the public are more likely to perceive the company as transparent, responsible, and trustworthy.

In addition, the mediation analysis confirms that reporting information quality and stakeholder perception serve as important transmission mechanisms through which sustainability governance influences firm performance. Specifically, sustainability committee integration enhances reporting quality, which subsequently improves stakeholder perception and trust, ultimately leading to improved company performance. These findings are aligned with legitimacy theory and information asymmetry theory, which suggest that high-quality disclosures reduce information asymmetry, strengthen organizational legitimacy, and enhance stakeholder confidence. Therefore, the effect of sustainability governance on firm performance operates not only directly but also through structured and sequential indirect pathways.

This study also contributes to the literature by demonstrating that the integration of sustainability committees into corporate reporting processes is not merely symbolic but produces measurable economic consequences. It is important to emphasize that such integration refers to the alignment and coordination between financial and sustainability reporting, rather than the direct incorporation of sustainability information into financial statements. By providing empirical evidence on the mediating roles of reporting quality and stakeholder perception, this study extends existing literature and offers a more comprehensive understanding of the mechanisms through which sustainability governance enhances firm performance.

Descriptive Statistics Results

The descriptive statistics indicate that all research variables exhibit sufficient variability, supporting the suitability of the dataset for further statistical analysis. The observed variation across variables suggests that the sample captures diverse levels of sustainability governance practices, reporting quality, stakeholder responses, and firm performance.

The average value of the sustainability committee integration index (SC_INT) indicates that a substantial proportion of companies have adopted sustainability committees or equivalent governance structures. However, the degree of integration varies considerably across firms, reflecting differences in governance maturity, organizational commitment, and responsiveness to regulatory and stakeholder pressures.

The variables representing reporting information quality (INF_QUAL) and stakeholder perception (STK_PERC) exhibit moderate mean values, suggesting that sustainability reporting practices and stakeholder responses are still evolving during the observation period. This finding is consistent with the relatively recent implementation of sustainability reporting regulations and the ongoing development of ESG practices in emerging markets such as Indonesia.

Firm performance (PERF), proxied by financial indicators such as Tobin's Q, Return on Assets (ROA), and Return on Equity (ROE), shows a relatively normal distribution without significant indications of extreme outliers. This suggests that the dataset is not heavily skewed and is appropriate for further inferential analysis. Overall, the descriptive results provide a solid foundation for subsequent hypothesis testing and structural model evaluation.

Table 1. Summary of Path Coefficient Results (Inner Model)

No	Relationship Between Variables	Path Coefficient (β)	t-Statistic	p-Value	Description
1	Sustainability Committee → Information Quality	0.421	6.812	0.000	Significant
2	Sustainability Committee → Stakeholder Perceptions	0.367	5.204	0.000	Significant
3	Sustainability Committee → Company Performance	0.198	2.094	0.036	Significant

No	Relationship Between Variables	Path Coefficient (β)	t-Statistic	p-Value	Description
4	Information Quality → Company Performance	0.314	4.583	0.000	Significant
5	Stakeholder Perception → Company Performance	0.289	3.977	0.000	Significant
6	Sustainability Committee → Company Performance (via Information Quality)	0.132	3.102	0.002	Significant mediation
7	Sustainability Committee → Company Performance (via Stakeholder Perception)	0.106	2.744	0.006	Significant mediation

Table 2. Evaluation of Goodness of Fit of PLS Model

Indicator	Value	Criteria	Conclusion
R^2 Information Quality	0.458	≥ 0.33 (moderate)	Moderate
R^2 Stakeholder Perception	0.387	≥ 0.33 (moderate)	Moderate
R^2 Company Performance	0.612	≥ 0.67 (substantial)	Moderat to substantial
Q^2 Predictive Relevance	0.487	> 0	Have predictive relevance
SRMR	0.061	< 0.08	Good Fit

Table 3. Summary of Reliability and Validity (Outer Model)

Construct	Cronbach's Alpha	Composite Reliability	AVE	Description
Sustainability Committee	0.876	0.911	0.674	Valid and reliable
Information Quality	0.884	0.923	0.701	Valid and reliable
Stakeholder Perceptions	0.861	0.912	0.695	Valid and reliable
Company Performance	0.903	0.934	0.726	Valid and reliable

Discussion

The findings of this study confirm that the integration of sustainability committees into corporate governance structures plays a significant role in enhancing reporting quality and strengthening stakeholder trust, which subsequently contributes to improved firm performance. These results are consistent with prior empirical studies (Driss et al., 2024; Mshana, 2024), while also extending the existing literature by providing empirical evidence on the underlying mediation mechanisms through which sustainability governance translates into tangible organizational outcomes.

From a theoretical perspective, the results provide strong support for stakeholder theory, which posits that organizations must deliver transparent and high-quality information to meet the expectations of diverse stakeholder groups. The presence of an integrated sustainability committee enhances internal oversight and coordination, ensuring that both financial and sustainability-related disclosures are more reliable, relevant, and aligned with stakeholder interests. Improved reporting quality, in turn, reduces information asymmetry and facilitates more informed decision-making among stakeholders.

Furthermore, the findings are consistent with signaling theory, which suggests that governance structures function as signals to external stakeholders regarding a firm's commitment to transparency and accountability. The integration of sustainability committees conveys a credible signal that sustainability practices are embedded within the company's strategic framework, rather than being treated as symbolic or compliance-driven activities. Consequently, stakeholders are more likely to develop positive perceptions and higher levels of trust toward the organization.

In addition, the results align with legitimacy theory, which emphasizes that organizations seek to maintain alignment with societal expectations to secure legitimacy and long-term sustainability. High-quality reporting and strong stakeholder trust, as facilitated by sustainability governance mechanisms, contribute to strengthening corporate legitimacy. This legitimacy, in turn, supports improved firm performance by reinforcing relationships with key stakeholders, including investors, customers, and regulators.

Importantly, this study demonstrates that the effect of sustainability committee integration on firm performance is not solely direct but also occurs through indirect pathways, particularly through reporting quality and stakeholder perception. This mediation mechanism indicates that sustainability governance creates value not only through structural changes in governance but also through improvements in information quality and stakeholder engagement processes. Therefore, the role of sustainability committees should be understood as part of a broader governance ecosystem that connects internal organizational processes with external stakeholder responses.

From a practical perspective, the findings suggest that companies should not establish sustainability committees merely as a formal compliance mechanism, but should ensure their effective integration into corporate reporting and decision-making processes. Strengthening the roles, competencies, and authority of sustainability committees can enhance the credibility of disclosures and improve stakeholder confidence, which ultimately contributes to improved organizational performance.

In the context of emerging markets such as Indonesia, this study highlights the increasing importance of governance integration in responding to evolving regulatory requirements and stakeholder expectations. The implementation of sustainability reporting regulations, such as POJK No. 51/POJK.03/2017, has encouraged companies to enhance transparency; however, the effectiveness of such regulations largely depends on the internal governance mechanisms adopted by firms. The findings of this study indicate that sustainability committees can serve as a critical instrument in bridging regulatory requirements and organizational practices, thereby enhancing the overall effectiveness of sustainability governance in emerging market contexts.

CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

Conclusion

This study examines the impact of sustainability committee integration within corporate governance structures on reporting information quality, stakeholder perception, and firm performance. The empirical findings, based on the Structural Equation Modeling–Partial Least Squares (SEM–PLS) approach, demonstrate that sustainability committees play a significant role in strengthening reporting quality and enhancing stakeholder trust. Specifically, the oversight function of sustainability committees contributes to improving the relevance, reliability, and completeness of sustainability-related disclosures, particularly through enhanced alignment and coordination between financial and non-financial reporting processes.

The results further indicate that the presence of an active and well-structured sustainability committee positively influences stakeholder perception and trust, which subsequently contributes to improved firm performance. In addition, reporting information quality and stakeholder perception are empirically confirmed as significant mediating variables that channel the effect of sustainability committee integration toward enhanced organizational performance. These findings suggest that the benefits of sustainability governance are not limited to direct effects but are also transmitted through improvements in disclosure quality and stakeholder confidence.

Overall, this study provides robust empirical evidence that the effective integration of sustainability committees into corporate governance and reporting processes enhances the effectiveness of sustainability practices and supports long-term value creation. Importantly, such integration should be understood as the alignment and connectivity between financial and sustainability reporting, rather than the direct incorporation of sustainability information into financial statements.

From a practical perspective, these findings highlight the strategic importance of strengthening sustainability governance mechanisms to improve reporting quality, transparency, and organizational performance. From a policy perspective, the results underscore the need for regulators in Indonesia, particularly the Financial Services Authority (Otoritas Jasa Keuangan/OJK), to further encourage the development of sustainability governance structures and promote the adoption of integrated reporting practices in response to increasing stakeholder expectations.

Limitations

This study acknowledges several limitations that should be considered when interpreting the findings. First, the use of secondary data derived from sustainability reports, annual reports, and financial statements may be subject to variations in disclosure quality across firms. Such variations may affect the accuracy of variable measurement, particularly for constructs such as reporting information quality and stakeholder perception.

Second, the construction of the sustainability committee integration index relies on publicly disclosed information, which may not fully capture the internal dynamics of governance practices. Informal roles, internal decision-making processes, and the actual effectiveness of sustainability committees may not be entirely reflected in publicly available disclosures.

Third, the observation period of 2021–2024 limits the ability to capture the long-term effects of sustainability governance integration, especially considering the evolving regulatory environment related to sustainability reporting in Indonesia. A longer observation period would provide deeper insights into the sustainability and persistence of the observed relationships.

Fourth, this study focuses exclusively on publicly listed companies, which may limit the generalizability of the findings to other types of organizations, such as private firms or state-owned enterprises that operate under different governance structures and regulatory pressures.

Finally, the mediating variables reporting information quality and stakeholder perception are measured using proxy indicators, which may not fully reflect actual stakeholder evaluations or the substantive quality of reporting practices. Therefore, the findings should be interpreted with caution, particularly in relation to the measurement of perceptual constructs.

Suggestion

Future research is encouraged to expand both the scope and methodological depth of sustainability governance studies. First, researchers are recommended to incorporate primary data collection methods, such as interviews, surveys, or expert evaluations, to obtain deeper insights into the internal processes, effectiveness, and strategic roles of sustainability committees beyond what is disclosed in public reports.

Second, future studies may extend the observation period or employ longitudinal and dynamic panel approaches to better capture the long-term effects of sustainability committee integration on reporting quality and firm performance. Such approaches would provide a more comprehensive understanding of the sustainability and stability of governance impacts over time.

Third, the measurement of stakeholder perception can be further refined by incorporating more diverse and objective indicators, such as media sentiment analysis, customer perception indices, or market-based responses (e.g., stock price reactions). This would allow future research to better capture the multidimensional nature of stakeholder evaluations.

Fourth, future research could conduct comparative studies across industries, countries, or regulatory environments to examine the moderating effects of institutional factors on the relationships identified in this study. Such comparative analyses would enhance the generalizability and external validity of the findings.

In addition, subsequent studies may incorporate additional mediating or moderating variables, such as corporate culture, leadership commitment, ESG assurance, and digital reporting capabilities, to develop a more comprehensive model of sustainability governance and its impact on organizational outcomes.

From a theoretical perspective, this study contributes to the integration of stakeholder theory, legitimacy theory, and signaling theory in explaining how sustainability governance mechanisms influence reporting quality and firm performance. From a practical standpoint, companies are encouraged to strengthen the role and integration of sustainability committees within governance and reporting processes to enhance transparency, credibility, and stakeholder trust. From a policy perspective, regulators such as the Financial Services Authority (Otoritas Jasa Keuangan/OJK) are encouraged to refine and strengthen guidelines related to sustainability governance structures to ensure the effective implementation of sustainability reporting practices in Indonesia.

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