

## Determinant Factors of Sustainability Report: The Moderating Role of Institutional Ownership

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### Abstract

*This study examines the influence of board size, board independence, and profitability on sustainability report disclosure, with institutional ownership as a moderating variable in non-cyclical consumer sector companies in Indonesia for the 2020–2023 period. Previous studies generally used the overall ASEAN CG Scorecard score, but this approach tends to overlook other relevant factors. To address this limitation, this study applies more specific governance indicators and includes profitability as an additional factor. Using Moderated Regression Analysis on 95 observations, the results show that board size and independence have a significant positive effect on sustainability disclosure, consistent with agency theory. Conversely, profitability has no significant effect, contrary to the predictions of stakeholder theory. The main finding is that institutional ownership actually weakens the positive effect of board size and independence and does not moderate the relationship between profitability and disclosure. These findings uncover a substitution effect where short-term-oriented institutional investors prioritize immediate financial returns over long-term sustainability transparency, reducing board effectiveness in serving broader stakeholder interests. This study contributes to methodological progress through specific corporate governance and reveals critical limitations of institutional monitoring in the Indonesian sustainability context.*

**Keywords:** Corporate governance, sustainability report, institutional ownership, profitability



## **INTRODUCTION**

Global environmental degradation is intensifying as Earth's temperature rises by 1.55°C above pre-industrial levels, with record CO<sub>2</sub> emissions reaching 40.8 billion tons by 2024 (World Meteorological Organization, 2024). Indonesia contributed 702.4 million tons of CO<sub>2</sub> in 2023. This crisis demands a three-pillar paradigm (profit, people, planet), which requires companies to balance financial performance with social and environmental sustainability (Tjahjadi et al., 2021). Sustainability report serves as a crucial disclosure instrument, with regulations in Indonesia (POJK No. 51/2017; SEOJK No. 16/2021) driving substantial growth from 54 report entities (2015) to 873 entities (2023), with a compliance rate reaching 97% (Katadata.co.id, 2024)

However, the quality of the report remains dependent on various determinants. Corporate governance has emerged as a crucial factor influencing sustainability disclosure. Tan & Zarefar (2022) Examined the relationship between corporate governance, measured using the ASEAN CG Scorecard, and the sustainability report, with institutional ownership as a moderating variable. They found that corporate governance positively impacted the sustainability report, but institutional ownership failed to moderate this relationship. Their study has two critical limitations: the aggregate scoring system obscures the effects of specific governance mechanisms, and the exclusive focus on corporate governance overlooks other potentially significant determinants. (Tajuddin et al., 2023) Identified board size and board independence as key specific mechanisms influencing report quality. Beyond governance mechanisms, profitability emerged as a theoretically significant but less empirically explored determinant. A comprehensive sustainability report requires substantial financial resources for data collection, verification, and external assurance, making profitability an important determinant of disclosure quality. (Theresia & Triwacananingrum, 2022)

Three critical gaps emerge from the existing literature. First, aggregate governance measures fail to capture the specific mechanism-specific effects of board size and independence, potentially leading to moderation failures. Second, a narrow focus on governance excludes profitability, which theoretically impacts corporate reporting capacity. Third, a gap remains between stringent regulations and actual practices in the non-cyclical consumer sector, which, despite its financial stability, has experienced environmental violations, including pollution by PT Greenfields Indonesia tbk since 2018 (Faza et al., 2024).

This study addresses these gaps by extending Tan & Zarefar's (2022) study through three methodological refinements: (1) using specific governance indicators (board size and

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independence) instead of aggregate scores, (2) incorporating profitability as an additional determinant, and (3) reanalyzing the moderating role of institutional ownership with disaggregated measures. By examining Indonesian non-cyclical consumer firms (2020-2023), this study contributes to the methodology of progress through specific governance measures, theoretical enrichment by integrating profitability, and a deeper understanding of the moderating mechanism of institutional ownership in the relationship between corporate governance, profitability, and control report.

## **LITERATURE REVIEW AND HYPOTHESES**

### **Agency Theory**

Agency theory explains the potential conflict of interest between owners (principals) and management (agents) due to information asymmetry, where agents can act opportunistically for personal gain, thereby incurring agency costs. (Jensen & Meckling, 1976). In the context of a sustainability report, this theory is relevant because disclosure of sustainability information is an important instrument for reducing information asymmetry, increasing accountability, and aligning management interests with the expectations of shareholders and other stakeholders. (Sjåfjell, 2018)

### **Stakeholder Theory**

Stakeholder theory, pioneered by Freeman, asserts that firms are accountable not only to shareholders but also to all stakeholders affected by or capable of influencing their activities, including the environment as a non-human stakeholder. (Beck, 2023; Freeman et al., 2004). In addressing environmental challenges, this theory highlights the need for collaboration with governments, communities, and NGOs, while promoting transparency through sustainability disclosure to strengthen legitimacy, accelerate green innovation, and enable more proactive and sustainable responses to environmental issues. (López-Gamero et al., 2023; Singh & Chakraborty, 2021).

### **The effect of board size on the sustainability report**

Agency theory explains the relationship between principals (shareholders) and agents (management), where conflicts of interest may arise due to divergent goals, resulting in agency costs that necessitate effective monitoring mechanisms. One such mechanism is board size, which reflects the number of directors responsible for overseeing management on behalf of shareholders. Larger boards are considered to enhance monitoring capacity, provide diverse perspectives, and strengthen decision-making,

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including in sustainability practices (Jamil et al., 2021). Empirical evidence shows that a larger board size positively influences sustainability reports by improving transparency and accountability in corporate disclosures (Anyigbah et al., 2023; Lewa et al., 2024).

**H1: Board size has a positive effect on the sustainability report**

**The effect of board independence on the sustainability report**

Agency theory explains the existence of conflicts of interest between principals and agents that give rise to agency costs, thus requiring effective oversight mechanisms such as board independence. Independent commissioners play a crucial role as a checks and balances mechanism to ensure the interests of all stakeholders are fairly accommodated. Previous research shows that the higher the level of board independence, the better the quality of sustainability report disclosures, as objective oversight encourages more transparent and accountable management on sustainability issues.(Lewa et al., 2024; Wijayanti & Setiawan, 2023).

**H2: Board independence has a positive effect on the sustainability report**

**The effect of profitability on the sustainability report**

Stakeholder theory highlights the importance of companies meeting the expectations of their various stakeholders to ensure sustainable and supported operations. Profitability plays a crucial role in this process, as more profitable companies have the financial capacity to fulfill stakeholder demands, particularly through a comprehensive sustainability report. These companies can allocate adequate resources for data collection, verification, and the preparation of high-quality sustainability reports. This allows them to transparently communicate their economic, social, and environmental performance to stakeholders. Empirical studies, such as those by Maryana and Maryana & Carolina (2021) and Sari et al. (2023) Support this argument, showing that higher profitability leads to broader and higher-quality sustainability disclosures.

**H3: Profitability has a positive effect on the sustainability report**

**The effect of board size, sustainability report, and institutional ownership**

Agency theory explains that conflicts of interest between management and shareholders can be minimized through effective oversight mechanisms. A larger board of directors contributes to improved oversight and the quality of sustainability disclosures (Anyigbah et al., 2023; Jamil et al., 2021). This relationship is further strengthened by institutional ownership, as institutional investors possess the capacity, expertise, and long-

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term orientation to conduct rigorous monitoring and encourage information disclosure (Anifowose, 2025). Thus, institutional ownership acts as a moderating factor, strengthening the influence of board size on sustainability reports (Dewi & Ramantha, 2021).

**H4: Institutional ownership strengthens the effect of board size on the sustainability report.**

#### **The effect of board independence, sustainability report, and institutional ownership**

Agency theory emphasizes the importance of oversight mechanisms to minimize conflicts of interest between management and shareholders, one of which is through board independence, which provides objective oversight of management performance and promotes transparency in sustainability disclosures. The presence of institutional ownership moderates the role of independent commissioners because institutional investors, with their long-term orientation and strong oversight capacity, encourage companies to improve the quality of the sustainability report. (Dewi & Ramantha, 2021). Blay et al. (2024) revealed that institutional ownership distorts the positive impact of committee independence on non-financial disclosure quality. Previous research has shown that the combination of internal oversight by independent commissioners and external pressure from institutional investors can increase the transparency and accountability of sustainability reports. (Mujiani et al., 2021; Setiawan et al., 2020).

**H5: Institutional ownership strengthens the effect of board independence on the sustainability report.**

#### **The effect of profitability, sustainability report, and institutional ownership**

Based on stakeholder theory, highly profitable companies tend to be more capable of meeting stakeholder expectations through a comprehensive sustainability report. (Maryana & Carolina, 2021; Sari et al., 2023). Institutional ownership strengthens this relationship, as it encourages greater transparency and accountability in sustainability practices through enhanced monitoring and higher reporting expectations. (Collevocchio et al., 2025; Lin et al., 2024). Therefore, profitable firms with significant institutional ownership are more responsive to sustainability demands, resulting in higher-quality sustainability reports driven by intense oversight and long-term stakeholder interests.

**H6: Institutional ownership strengthens the effect of profitability on the sustainability report**



**METHODS**

This study uses a quantitative approach with causal analysis. The data type is secondary data obtained from annual reports and sustainability reports of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period, sourced from the official IDX website and company websites. The sample was selected using a purposive sampling technique with the following criteria: companies publish sustainability reports based on GRI standards, present annual reports, and disclose institutional ownership. The research instruments include the Sustainability Report Disclosure Index (SRDI) based on GRI 2016/2021, board size (BOASIZE) measured by the natural logarithm of the number of directors, and board independence (BOAIND) measured by the proportion of independent commissioners. Profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets, while institutional ownership (INSTOWN) is measured by the proportion of institutional shares to total outstanding shares. Control variables are firm size (FSIZE), proxied by the natural logarithm of total assets, and leverage (DAR), measured by the debt-to-assets ratio (total liabilities divided by total assets). Data were collected through a literature review and documentation of company reports. The theoretical framework applied is agency theory and stakeholder theory. Data analysis was performed using SPSS version 25, including descriptive statistics, classical assumption tests, and Moderated Regression Analysis (MRA), with hypothesis testing conducted through Adjusted  $R^2$ , F-test, and T-test. Data credibility is ensured through the use of official IDX sources and internationally validated GRI standards.

**RESULT****Descriptive statistic**

Descriptive statistics are used to describe the characteristics of research data by presenting minimum, maximum, average, standard deviation, and distribution values of variables, thus providing an initial understanding of dependent, independent, and moderating variables.

**Table 1. Descriptive statistic**

| Descriptive Statistics |    |         |         |        |                |
|------------------------|----|---------|---------|--------|----------------|
|                        | N  | Minimum | Maximum | Mean   | Std. Deviation |
| SRDI                   | 95 | 0,09    | 0,77    | 0,4287 | 0,16939        |
| BOASIZE                | 95 | 0,69    | 2,48    | 1,5040 | 0,43163        |
| BOAIND                 | 95 | 0,33    | 0,83    | 0,4214 | 0,12566        |



|                    |    |       |       |         |         |
|--------------------|----|-------|-------|---------|---------|
| ROA                | 95 | -0,20 | 0,35  | 0,0714  | 0,09248 |
| INSTOWN            | 95 | 0,06  | 0,95  | 0,6858  | 0,19584 |
| FSIZE              | 95 | 9,19  | 29,85 | 18,0928 | 5,89908 |
| LEV                | 95 | 0,09  | 1,00  | 0,5099  | 0,23311 |
| Valid N (listwise) | 95 |       |       |         |         |

Based on Table 1, the descriptive statistics analysis results show that the Sustainability Report (SRDI) variable has an average of 0,4287 (42,87%), indicating that sample companies only disclose less than half of the GRI sustainability report items, with a disclosure range of 9% to 77%. Board Size (BOASIZE with an average of 1,5040 indicates that most companies have around 4-5 directors, while Board Independence (BOAIND) has an average of 0,4214 (42,14%), indicating that the company has met the minimum requirements of the Indonesian Financial Services Authority (OJK) of 30% independent commissioners against the board of commissioners. Return on Assets (ROA) has an average of 0,0714 (7,14%), has an average of 0,0714 (7,14%), indicating a relatively small profitability capability in generating profits from owned assets. Institutional Ownership (INSTOWN) with an average of 0,6858 (68,58%) indicates that the majority of sample companies are controlled by institutional investors. Firm Size (FSIZE) with an average of 18,0928 indicates that the sample is dominated by medium to large companies, while leverage shows a moderate level, where about half of the assets are financed by debt.

### Classical assumption testing

A regression model must undergo a series of classical assumption tests to ensure its relationships are representative and statistically significant. These include normality testing for data distribution, multicollinearity testing for relationships among independent variables, autocorrelation testing for residual patterns, and heteroscedasticity testing to assess residual variance.

### Normality test

**Table 2. Normality test**

| One-Sample Kolmogorov-Smirnov Test |      |                         |
|------------------------------------|------|-------------------------|
|                                    |      | Unstandardized Residual |
| N                                  |      | 95                      |
| Normal Parameters <sup>a,b</sup>   | Mean | 0,0000000               |

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|                                                    |                |                      |
|----------------------------------------------------|----------------|----------------------|
|                                                    | Std. Deviation | 0,15216199           |
| Most Extreme Differences                           | Absolute       | 0,046                |
|                                                    | Positive       | 0,044                |
|                                                    | Negative       | -0,046               |
| Test Statistic                                     |                | 0,046                |
| Asymp. Sig. (2-tailed)                             |                | 0,200 <sup>c,d</sup> |
| a. Test distribution is Normal.                    |                |                      |
| b. Calculated from data.                           |                |                      |
| c. Lilliefors Significance Correction.             |                |                      |
| d. This is a lower bound of the true significance. |                |                      |

Based on Table 2. Normality test, the results of the Kolmogorov-Smirnov (K-S) test are shown in the table, the asymp sig value obtained is 0,200, which exceeds  $> 0,05$ , indicating that the data is normally distributed.

### Multicollinearity test

**Table 3. Multicollinearity test**

| Model                       |            | Collinearity Statistics |       |
|-----------------------------|------------|-------------------------|-------|
|                             |            | Tolerance               | VIF   |
| 1                           | (Constant) |                         |       |
|                             | BOASIZE    | 0,896                   | 1,116 |
|                             | BOAIND     | 0,710                   | 1,407 |
|                             | ROA        | 0,725                   | 1,379 |
|                             | INSTOWN    | 0,941                   | 1,063 |
|                             | FSIZE      | 0,778                   | 1,286 |
|                             | LEV        | 0,763                   | 1,311 |
| a. Dependent Variable: SRDI |            |                         |       |

Based on Table 3. Multicollinearity test, the results of the multicollinearity test, the tolerance values for all variables in this study are greater than  $> 0,10$ , and the variance inflation factor (VIF) values are less than  $< 10$ , indicating that multicollinearity is not present in the data.



**Autocorrelation Test****Table 4. Autocorrelation test**

| <b>Runs Test</b>        |                         |
|-------------------------|-------------------------|
|                         | Unstandardized Residual |
| Test Value <sup>a</sup> | 0,00632                 |
| Cases < Test Value      | 47                      |
| Cases >= Test Value     | 48                      |
| Total Cases             | 95                      |
| Number of Runs          | 41                      |
| Z                       | -1,546                  |
| Asymp. Sig. (2-tailed)  | 0,122                   |
| a. Median               |                         |

In the Table. 4 Autocorrelation test, the test value is 0,00632 and the asymp sig (2-tailed) is 0,122, which is greater than  $> 0,05$ , so it can be concluded that in the regression model, there are no symptoms or problems of autocorrelation.

**Heteroscedasticity test****Table 5. Heteroscedasticity test**

| <b>Coefficients<sup>a</sup></b> |            |                             |            |                           |        |       |
|---------------------------------|------------|-----------------------------|------------|---------------------------|--------|-------|
| Model                           |            | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig.  |
|                                 |            | B                           | Std. Error | Beta                      |        |       |
| 1                               | (Constant) | 0,175                       | 0,073      |                           | 2,389  | 0,019 |
|                                 | SRDI       | -0,008                      | 0,062      | -0,015                    | -0,133 | 0,894 |
|                                 | BOASIZE    | 0,013                       | 0,025      | 0,060                     | 0,495  | 0,622 |
|                                 | BOAIND     | -0,044                      | 0,089      | -0,061                    | -0,496 | 0,621 |
|                                 | ROA        | 0,027                       | 0,120      | 0,027                     | 0,224  | 0,823 |
|                                 | INSTOWN    | 0,026                       | 0,050      | 0,055                     | 0,514  | 0,609 |
|                                 | FSIZE      | -0,002                      | 0,002      | -0,146                    | -1,236 | 0,220 |
|                                 | LEV        | -0,057                      | 0,046      | -0,148                    | -1,237 | 0,219 |
| a. Dependent Variable: ABS_RES  |            |                             |            |                           |        |       |



From Table 5. Heteroscedasticity test, all variables have a sig value of more than > 0,05, so there are no symptoms of heteroscedasticity.

### Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is a statistical method used to test whether the effect of an independent variable on a dependent variable is influenced by a moderating variable.

**Table 6. Moderated Regression Analysis (MRA)**

| Coefficients <sup>a</sup>   |                 |                             |            |                           |        |       |
|-----------------------------|-----------------|-----------------------------|------------|---------------------------|--------|-------|
| Model                       |                 | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  |
|                             |                 | B                           | Std. Error | Beta                      |        |       |
| 1                           | (Constant)      | -0,994                      | 0,416      |                           | -2,387 | 0,019 |
|                             | BOASIZE         | 0,532                       | 0,150      | 1,357                     | 3,542  | 0,001 |
|                             | BOAIND          | 1,400                       | 0,615      | 1,038                     | 2,277  | 0,025 |
|                             | ROA             | 1,277                       | 0,866      | 0,697                     | 1,475  | 0,144 |
|                             | INSTOWN         | 1,429                       | 0,497      | 1,652                     | 2,873  | 0,005 |
|                             | BOASIZE*INSTOWN | -0,467                      | 0,203      | -1,141                    | -2,302 | 0,024 |
|                             | BOAIND*INSTOWN  | -1,816                      | 0,841      | -1,332                    | -2,161 | 0,034 |
|                             | ROA*INSTOWN     | -1,435                      | 1,089      | -0,616                    | -1,318 | 0,191 |
|                             | FSIZE           | 0,002                       | 0,003      | 0,059                     | 0,553  | 0,582 |
|                             | LEV             | 0,012                       | 0,080      | 0,016                     | 0,147  | 0,884 |
| a. Dependent Variable: SRDI |                 |                             |            |                           |        |       |

Based on the results of the Moderated Regression Analysis (MRA) presented in Table 6, the following regression model was obtained:

$$\text{SRDI} = -0,994 + 0,532(\text{BOASIZE}) + 1,400(\text{BOAIND}) + 1,277(\text{ROA}) + 1,429(\text{INSTOWN}) - 0,467(\text{BOASIZE} \cdot \text{INSTOWN}) - 1,816(\text{BOAIND} \cdot \text{INSTOWN}) - 1,435(\text{ROA} \cdot \text{INSTOWN}) + 0,002(\text{FSIZE}) + 0,012(\text{LEV})$$

### Hypothesis testing

Hypothesis testing is a statistical procedure for assessing whether the hypothesized relationship between variables in a study is supported by empirical data. In regression



analysis, testing is performed using the coefficient of determination ( $R^2$ ) to assess the model's ability, the F-test to assess the influence of independent variables simultaneously, and the t-test to examine the influence of each independent variable partially.

### Coefficient of determination ( $R^2$ )

**Table 7. Coefficient of determination ( $R^2$ ) test**

| Model Summary                                                                                                      |                    |          |                   |                            |
|--------------------------------------------------------------------------------------------------------------------|--------------------|----------|-------------------|----------------------------|
| Model                                                                                                              | R                  | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1                                                                                                                  | 0,525 <sup>a</sup> | 0,276    | 0,199             | 0,15161                    |
| a. Predictors: (Constant), LEV, BOASIZE, FSIZE, INSTOWN, ROA*INSTOWN, BOAIND, ROA, BOASIZE*INSTOWN, BOAIND*INSTOWN |                    |          |                   |                            |

Based on Table 7 Coefficient of determination ( $R^2$ ) test, the results of the determination coefficient test in the table, the  $R^2$  value in the regression model test can be seen through the Adjusted R Square value. The Adjusted R Square value of 0,199 or 19,9% indicates that the independent variables BOASIZE, BOAIND, and ROA, the moderating variable INSTOWN, and the control variables FSIZE and LEV are moderately able to explain the dependent variable by 19,9% and the remaining 80,1% is influenced by other variables not examined in this study.

### F Test

**Table 8. F test**

| ANOVA <sup>a</sup>                                                                                                 |            |                |    |             |       |        |
|--------------------------------------------------------------------------------------------------------------------|------------|----------------|----|-------------|-------|--------|
| Model                                                                                                              |            | Sum of Squares | df | Mean Square | F     | Sig.   |
| 1                                                                                                                  | Regression | 0,743          | 9  | 0,083       | 3,593 | 0,001b |
|                                                                                                                    | Residual   | 1,954          | 85 | 0,023       |       |        |
|                                                                                                                    | Total      | 2,697          | 94 |             |       |        |
| a. Dependent Variable: SRDI                                                                                        |            |                |    |             |       |        |
| b. Predictors: (Constant), LEV, BOASIZE, FSIZE, INSTOWN, ROA*INSTOWN, BOAIND, ROA, BOASIZE*INSTOWN, BOAIND*INSTOWN |            |                |    |             |       |        |



Based on Table 8. F test, the sig value is 0,001, which means the sig coefficient is smaller than  $< 0,05$ . Based on the criteria mentioned above, the results of the Simultaneous F test indicate that the independent variables BOASIZE, BOAIND, and ROA, the moderating variable INSTOWN, and the control variables FSIZE and LEV have a significant and simultaneous effect on the sustainability report variable.

### T Test

**Table 9. T test**

| <b>Coefficients<sup>a</sup></b> |                 |                             |            |                           |        |       |
|---------------------------------|-----------------|-----------------------------|------------|---------------------------|--------|-------|
| Model                           |                 | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  |
|                                 |                 | B                           | Std. Error | Beta                      |        |       |
| 1                               | (Constant)      | -0,994                      | 0,416      |                           | -2,387 | 0,019 |
|                                 | BOASIZE         | 0,532                       | 0,150      | 1,357                     | 3,542  | 0,001 |
|                                 | BOAIND          | 1,400                       | 0,615      | 1,038                     | 2,277  | 0,025 |
|                                 | ROA             | 1,277                       | 0,866      | 0,697                     | 1,475  | 0,144 |
|                                 | INSTOWN         | 1,429                       | 0,497      | 1,652                     | 2,873  | 0,005 |
|                                 | BOASIZE*INSTOWN | -0,467                      | 0,203      | -1,141                    | -2,302 | 0,024 |
|                                 | BOAIND*INSTOWN  | -1,816                      | 0,841      | -1,332                    | -2,161 | 0,034 |
|                                 | ROA*INSTOWN     | -1,435                      | 1,089      | -0,616                    | -1,318 | 0,191 |
|                                 | FSIZE           | 0,002                       | 0,003      | 0,059                     | 0,553  | 0,582 |
|                                 | LEV             | 0,012                       | 0,080      | 0,016                     | 0,147  | 0,884 |
| a. Dependent Variable: SRDI     |                 |                             |            |                           |        |       |

Based on Table 9. T-test, the results of the t-test (partial), the t-statistic value, and the significance level are obtained, which show the influence of each variable on the disclosure of the sustainability report (SRDI).

#### 1. The effect of board size on the sustainability report

Board size on the sustainability report has a t-value of 3,542 and a significance (sig) level of  $0,001 < 0,05$ ; therefore, it can be concluded that board size has a positive and significant effect on the sustainability report

#### 2. The effect of board independence on sustainability report



Board independence on the sustainability report has a t-value of 2,277 and a significance (sig) level of  $0,025 < 0,05$ ; therefore, it can be concluded that board independence has a positive and significant effect on the sustainability report

### **3. The effect of profitability on the sustainability report**

Profitability (ROA) on the sustainability report has a t-value of 1,475 and a significance (sig) level of  $0,144 > 0,05$ ; therefore, it can be concluded that profitability has no significant effect on the sustainability report

### **4. The effect of board size, sustainability report, and institutional ownership**

Institutional ownership moderates on board size has a t-value of -2,302 and a significance level of  $0,024 < 0,05$ ; therefore, it can be concluded that institutional ownership significantly moderates the relationship between board size and sustainability report with a negative effect

### **5. The effect of board independence, the sustainability report, and institutional ownership**

Institutional ownership moderately on board independence has a t-value of -2.161 and significance level of  $0,034 < 0,05$ ; therefore, it can be concluded that institutional ownership significantly moderates the relationship between board independence and sustainability report, with a negative effect

### **6. The effect of profitability, sustainability report, and institutional ownership**

Institutional ownership moderate effect on profitability, has a t-value of -1,318 and a significance level of  $0,191 > 0,05$ ; therefore, it can be concluded that institutional ownership does not moderate the relationship between profitability and sustainability report

## **DISCUSSION**

Based on the research results, board size has a significant positive effect on sustainability report disclosure, thus H1 is accepted. This finding is consistent with agency theory, which posits that larger boards possess diverse expertise and perspectives that reduce agency costs through more effective monitoring mechanisms. Larger boards demonstrate superior capacity to oversee management and promote sustainability report transparency, thereby mitigating principal-agent conflicts. This aligns with Anyigbah et al. (2023) and Jamil et al. (2021), who found that larger boards contribute to more comprehensive sustainability decision-making through enhanced exchange of ideas and perspectives.



Board independence has a significant positive effect on sustainability report disclosure, thus supporting hypothesis H2. This finding aligns with agency theory, which highlights the role of independent commissioners as an effective monitoring mechanism that reduces conflicts of interest and agency costs between management and stakeholders. Independent commissioners, who are not affiliated with management or controlling shareholders, can perform their oversight function more objectively, encouraging management to be more transparent and accountable in the sustainability report. This independence allows them to oversee reporting practices without bias from particular interests, ensuring that the disclosed sustainability information accurately reflects the company's actual performance. The results of this study are consistent with the findings of Lewa et al. (2024) and Wijayanti & Setiawan (2023), which demonstrates that board independence enhances the quality and credibility of sustainability disclosures through stricter and more objective oversight of management report practices.

Contrary to the initial hypothesis, profitability did not significantly influence sustainability report disclosure; thus, H3 was rejected. Although companies with high profitability have greater financial capacity to undertake sustainability activities and disclosures, this financial advantage does not necessarily lead to increased transparency in the sustainability report. From a stakeholder theory perspective, this may occur because highly profitable companies perceive that strong financial performance has met the primary expectations of stakeholders, particularly investors and creditors, thus reducing the pressure to provide non-financial disclosures. Furthermore, companies with high profits tend to be more cautious in disclosing sustainability information due to concerns that excessive transparency could attract public attention and raise stakeholder expectations beyond manageable limits. (Kulsum, 2025; Wahyuningrum et al., 2022). Therefore, profitability is not a primary factor driving sustainability report disclosure and may even lead to conservative attitudes in voluntary reporting.

This finding contradicts the initial hypothesis that institutional ownership would strengthen the positive effect of board size on sustainability report disclosure. From the perspective of agency theory, institutional ownership may weaken this relationship because institutional investors often prioritize short-term financial performance over long-term sustainability goals. This can create a substitution effect, where the monitoring pressure from institutional investors diminishes the board's role in promoting transparency in the sustainability report. As a result, although larger boards usually improve corporate oversight and the quality of disclosures, their effectiveness in influencing sustainability reports decreases when institutional ownership is high. This shift occurs as management



tends to focus more on short-term financial gains rather than non-financial transparency (Shinta et al., 2023).

Furthermore, institutional ownership weakens the positive effect of board size on sustainability report disclosure, thus H4 is rejected as it contradicts the initial hypothesis predicting a strengthening effect. From the perspective of agency theory, institutional ownership may weaken this relationship because institutional investors often prioritize short-term financial performance over long-term sustainability goals. This can create a substitution effect, where the monitoring pressure from institutional investors diminishes the board's role in promoting transparency in the sustainability report. As a result, although larger boards usually improve corporate oversight and the quality of disclosures, their effectiveness in influencing sustainability reports decreases when institutional ownership is high. This shift occurs as management tends to focus more on short-term financial gains rather than non-financial transparency. (Nuhu & Alam, 2024; Shinta et al., 2023)

Consistent with previous findings, institutional ownership also weakens the positive effect of board independence on sustainability report disclosure, thus H5 is rejected. Based on agency theory, the weakening effect of institutional ownership on the relationship between board independence and sustainability report disclosure can be understood from how monitoring priorities shift within the company. Ideally, independent commissioners are expected to provide objective supervision over management and ensure that the company remains accountable to its stakeholders. However, when institutional investors hold a dominant position, their strong influence may change the direction of oversight toward short-term profit goals. As a result, management tends to focus more on financial outcomes and less on sustainability and transparency (Acar et al., 2021). Consistent with Yi et al. (2025) The findings indicate that the dominance of short-term institutional investors limits the ability of independent commissioners to encourage non-financial disclosure, which ultimately reduces the sustainability report.

Furthermore, institutional ownership did not demonstrate a significant moderating role in the relationship between profitability and sustainability report, thus rejecting H6. This can be explained through the perspective of self-interest theory, which emphasizes that every party within a company, including institutional investors, will behave to fulfill their own interests. In this context, institutional investors are more focused on maximizing short-term financial gains than promoting long-term sustainability goals. Pandapotan (2023) also noted that institutional investors tend to prioritize financial returns over sustainability commitments, weakening their role in promoting sustainability disclosure. This short-term orientation creates an imbalance between profitability and sustainability reports, as



institutional owners judge a company's success primarily based on financial performance. Consequently, institutional ownership is unable to strengthen the relationship between profitability and sustainability disclosure, both in highly profitable and less profitable companies, as both are under the same pressure to meet short-term financial targets.

This study makes significant theoretical contributions to corporate governance and sustainability disclosure literature in emerging markets. The finding that board size and board independence positively affect sustainability report disclosure reinforces agency theory's validity, demonstrating that strong governance mechanisms remain relevant monitoring tools to reduce information asymmetry and enhance non-financial transparency. However, profitability's insignificant effect contradicts stakeholder theory's prediction that profitable companies would be more responsive to stakeholder demands. Most interestingly, institutional ownership actually weakens board size and board independence effectiveness in promoting sustainability disclosure, contrary to common assumptions that institutional investors are sophisticated monitors encouraging sustainable practices. Furthermore, institutional ownership does not moderate the profitability-disclosure relationship, confirming that short-term investor orientation creates trade-offs between financial performance and sustainability transparency. These findings reveal a substitution effect phenomenon where institutional investors' short-term focus reduces board effectiveness in serving broader stakeholder interests. Practically, these results provide important implications for regulators to strengthen governance structures while encouraging institutional investor reorientation toward long-term sustainability commitment through appropriate incentives and regulations.

## **CONCLUSION**

Increasing environmental degradation emphasizes the need for corporate transparency through a sustainability report, particularly in the non-cyclical consumer sector, which plays a strategic role but poses significant environmental risks. This study examines the effect of board size, board independence, and profitability on sustainability report disclosure, with institutional ownership as a moderating factor in Indonesian non-cyclical consumer companies for the period 2020-2023. The results show that board size and board independence have a significant positive effect (H1 and H2 are accepted), confirming agency theory that effective governance mechanisms enhance monitoring and transparency. Profitability has no significant effect (H3 is rejected) because profitable companies perceive financial performance as meeting the expectations of key stakeholders. Institutional ownership actually weakens the positive effect of board size and

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board independence (H4 and H5 are rejected with negative moderation) and does not moderate the relationship between profitability and sustainability report disclosure (H6 is rejected), indicating a substitution effect where short-term-oriented investors prioritize immediate financial returns over long-term sustainability transparency.

Theoretically, this study strengthens the validity of agency theory while revealing the limitations of stakeholder theory in emerging markets and identifying the substitution effect of institutional ownership that reduces the effectiveness of internal governance mechanisms. Practically, companies need to optimize board composition and communicate the value of long-term sustainability to institutional investors. Regulators such as the Financial Services Authority and the Indonesia Stock Exchange (IDX) need to encourage sustainable investment through tax incentives and stricter sustainability report policies. Institutional investors need to shift from a short-term orientation to sustainability commitments by integrating sustainability report criteria into investment decisions.

This study is limited by its single-sector focus, relatively short observation period (2020–2023), and single-country context. Future research is recommended to cover multiple sectors over a longer period and consider additional governance dimensions such as board diversity, audit committee effectiveness, and other governance mechanisms. Furthermore, the use of moderating variables such as family ownership structure, majority ownership, and foreign ownership can provide a more comprehensive understanding of the factors influencing the sustainability report. Cross-country comparative studies are also needed to examine how institutional contexts and regulatory frameworks influence the relationship between governance, ownership, and sustainability disclosure in emerging markets.

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