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Determinants of Environmental, Social, and Governance (ESG) disclosure in Indonesian banking sector

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Abstract

This study intends to investigate the influence of corporate governance systems on the level of Environmental, Social, and Governance (ESG) Disclosure in the banking industry listed on the Indonesia Stock Exchange. The variables analyzed include Independent Board of Commissioners, Board Size, Audit Committee Expertise, Independent Audit Committee, and Institutional Ownership. This research takes a quantitative method with secondary data acquired from annual reports and sustainability reports over a three-year period. The research sample consists of 39 banks that match the sample selection criteria. Multiple linear regression was used to analyze the data. The research findings indicate that an Independent Board of Commissioners, Board Size, an Independent Audit Committee, and Institutional Ownership exert a positive and significant influence on ESG Disclosure. Meanwhile, Audit Committee Expertise has a positive but insignificant impact on ESG Disclosure. These results suggest that how a company is managed, particularly through careful oversight and pressure from outside sources, is important for improving transparency in ESG Disclosure in the banking industry.

Introduction

Global consciousness on sustainability concerns is rising, accompanied by demands for more accountable business practices. Bloomberg.com (2021) indicates that the valuation of Environmental, Social, and Governance (ESG)-focused investments is anticipated to surpass US\$53 trillion by 2025, signifying a substantial transition towards sustainable business practices. KPMG International (2022) indicates that 96% of the world's 250 largest corporations have issued sustainability reports that cite international standards, including the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD) (AIMA, 2025). This development signifies that ESG disclosure has evolved from a voluntary practice into a regulated mechanism and a legitimacy strategy to uphold public confidence and enhance global competitiveness.

A comparable situation is transpiring in Indonesia, where by January 2025, 873 companies, or around 97% of the total listed entities on the Indonesia Stock Exchange (IDX), have submitted sustainability reports (Katadata Green, 2025). This development signifies the increasing implementation of ESG disclosure procedures among publicly listed companies in Indonesia (Putra & Setiawan, 2026). These obligations are governed by POJK No. 51/POJK.03/2017 regarding the Implementation of Sustainable Finance and SEOJK No. 16/SEOJK.04/2021 pertaining to the Form and Content of Annual Reports of Issuers or Public Companies, mandating that companies prepare and disseminate sustainability reports annually, thereby transforming ESG reporting from a discretionary practice to a statutory requirement (Otoritas Jasa Keuangan, 2017; Setiatin, 2025).

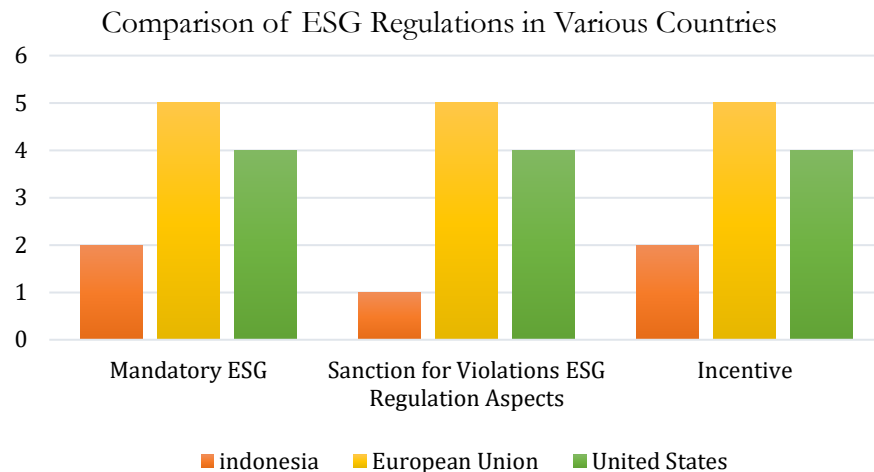


Figure 1. Comparison of ESG Regulations

Compared with developed countries, the implementation of sustainability standards in Indonesia is still in the strengthening phase in terms of ESG regulations (Kossay & Putra, 2025). Based on comparative assessments of ESG regulatory frameworks, Indonesia's ESG reporting obligations, sanctions, and incentives are rated 2, 1, and 2, respectively, on a scale of 1 to 5. These scores indicate that the strictness of ESG regulations in Indonesia remains relatively lower than those of the European Union, which is rated at level 5, and the United States, which is rated at level 4. This condition highlights the need for the Financial Services Authority (OJK) to further strengthen the regulatory and policy framework in order to promote more effective implementation of ESG practices in Indonesia.

The banking sector plays a critical role in pushing ESG implementation in Indonesia since it is under stringent regulatory monitoring and acts as a baseline for transparency and sustainable financial governance (Otoritas Jasa Keuangan, 2024). However, the level of ESG disclosure in the banking sector remains uneven, as high implementation costs and limited government support restrict the extent of ESG-related information disclosed by banks (Iswenda, 2025). Major banks like Mandiri, BRI, and BNI have submitted detailed sustainability reports that exceed international standards, whereas most medium and small banks are still limited to completing administrative responsibilities (Prihandini, 2025). Environmental disclosure is still relatively low compared to economic and social factors because people don't know much about environmental issues and their effects (Wicaksono, 2023). The 2022–2024 period, which is a phase of transition toward the implementation of National Sustainability Disclosure Standards based on IFRS S1 and S2, is when this gap is becoming more noticeable and calls for an increase in the quality of corporate governance (Kartiko & Firmansyah, 2024).

The findings of earlier studies on the factors influencing Environmental, Social, and Governance (ESG) Disclosure have been conflicting and uneven. ESG Disclosure is significantly improved by the independence and size of the board of commissioners, according to several studies (Fujianti et al., 2024; Nicolo et al., 2023; Sari & Fitriani, 2024). However, other studies claim that board size has no bearing because the internal audit division handles oversight (Hapsari & Arieftiara, 2024; Restyasih et al., 2025). Regarding the expertise of the audit committee, Lendengtariang and Bimo (2022) revealed a considerable favorable influence, but Restyasih et al. (2025) exhibited insignificant results, demonstrating that accounting expertise alone is not yet optimal in fostering ESG openness. Sari and Fitriani (2024) discovered a negative influence, but Restyasih et al., (2025) revealed a strong favorable influence for the independent audit committee. Additionally, institutional ownership reveals inconsistent effects, with favorable (Susanto et al., 2024), negative Lestari et al., (2025), or no impact, since ESG is still perceived as a formal responsibility (Vivianita et al., 2024). These inconsistencies indicate that the relationship between

corporate governance mechanisms and ESG disclosure remains unclear and requires further empirical investigation.

Given that the majority of studies still concentrate on the non-financial sector and that the banking industry has distinct regulatory and supervisory characteristics, the discrepancies in the results of earlier studies point to a research gap that requires more attention. Moreover, despite the significant influence of institutional investors on promoting sustainability and transparency, there has been limited research on the role of institutional ownership as an external monitoring mechanism (Perdana & Anshori, 2022). This research is important for understanding how internal and external governance affects ESG disclosure in Indonesian banks, especially as they move towards new Sustainability Disclosure Standards and IFRS S1-S2, and it will help regulators, bank managers, and the growth of sustainability studies in developing countries.

This study intends to assess the influence of the Independent Board of Commissioners, Board Size, Audit Committee Expertise, Independent Audit Committee, and Institutional Ownership on the level of ESG disclosure in commercial banks listed on the Indonesia Stock Exchange for the period 2022–2024. This study provides a more thorough analysis of ESG disclosure factors by integrating internal and external governance processes within the banking context. It contributes to the literature on ESG and corporate governance in emerging markets while investigating the causal relationship between corporate governance and ESG disclosure using a quantitative approach. In practical terms, the results provide guidance to investors, banking organizations, and regulators on how to strengthen ESG disclosure standards and increase transparency in the Indonesian banking industry.

Literature Review

Dowling and Pfeffer (1975) legitimacy thesis posits that businesses can maintain their viability if their actions and principles align with societal norms. In this context, Environmental, Social, and Governance (ESG) disclosure is used as a legitimization mechanism to demonstrate a company's commitment to social responsibility, ethics, and sustainability, as well as to increase public trust and reduce the gap between the company's interests and those of society (Nicolo et al., 2023). ESG reporting shows how companies try to gain permission from society to operate by being more open and responsible about their non-financial information, which is pushed by the demands of stakeholders and rules about non-financial reporting. So, legitimacy theory helps explain how things like the independence and size of a company's board, the expertise and independence of its audit committee, and the ownership by institutions relate to how much ESG disclosure banks provide (Bolognesi et al., 2025).

The dependent variable in this study is Environmental, Social, and Governance (ESG) Disclosure, which refers to a company's transparency in reporting non-financial performance that reflects social responsibility and sustainable governance (Sari & Fitriani, 2024). Based on Legitimacy Theory (Dowling & Pfeffer, 1975), firms aim to achieve and maintain public acceptance by proving the alignment of their commercial actions with social values through information openness. ESG disclosure acts as a means of legitimization that promotes public trust. Research by Fujianti et al. (2024) reveals that Board of Commissioners features, particularly independence and board size, positively influence ESG disclosure. Additionally, Anjani et al. (2024) affirm that the adoption of POJK No. 51/2017 promotes enterprises in Indonesia to increase sustainability reporting as a form of social legitimacy. Banking institutions use ESG disclosure as a tactic to enhance transparency, win over the public, and bolster their credibility.

Independent Commissioners are outside board members who help to provide impartial supervision because they have no conflicts of interest with controlling shareholders or management (Fujianti et al., 2024). According to Legitimacy Theory (Dowling & Pfeffer, 1975), having independent commissioners increases transparency, which aids businesses in maintaining congruence between their operations and social values. According to several studies, board independence

enhances the objectivity of supervision and the integrity of reporting, which has a beneficial impact on Environmental, Social, and Governance (ESG) disclosure (Sari & Fitriani, 2024). Additionally, the presence of independent directors can prevent conflicts of interest and encourage corporations to disclose ESG practices more openly as a kind of societal legitimacy (Nicolo et al., 2023). Therefore, the motivation for banking companies to raise the transparency of ESG Disclosure increases with the percentage of independent board members (Kusumawardani et al., 2025).

H₁: Independent Board of Commissioners has a positive effect on ESG Disclosure

The Board of Commissioners' size indicates how well-equipped the group is to carry out its supervision and strategic decision-making duties (Sari & Fitriani, 2024). Based on Legitimacy Theory (Dowling & Pfeffer, 1975), a board with a suitable number of members helps the corporation to have broader resources and views to respond to societal pressures and public transparency expectations. According to several studies, board size has a beneficial impact on ESG disclosure because it improves sustainability reporting quality and oversight effectiveness (Fujianti et al., 2024). Nonetheless, some research emphasizes the value of maintaining a balanced board size because an excessive number of members may impair corporate legitimacy by reducing coordination and accountability effectiveness (Itan et al., 2025). Therefore, an effective board size is anticipated to promote increasing ESG disclosure as a legitimate method of legitimization in the banking industry, which is under intense regulatory and reputational pressure.

H₂: The size of the Board of Commissioners has a positive effect on ESG Disclosure.

The expertise of the Audit Committee is the proportion of Audit Committee members who have an accounting or finance background, reflecting the ability to oversee the quality of the company's reporting (Lendengtariang & Bimo, 2022). Based on Legitimacy Theory (Dowling & Pfeffer, 1975), a competent audit committee plays a role in ensuring the transparency and accuracy of ESG disclosures so that the company's activities align with societal values and expectations (Setiawan & Ridaryanto, 2022). Empirical findings indicate that the accounting and finance expertise of the audit committee positively influences the quality of sustainability disclosure, although its effectiveness may vary due to the continued dominant focus on financial reporting (Restyasih et al., 2025). Therefore, the expertise of the audit committee is likely to have a favorable influence on ESG disclosure as a method of corporate legitimacy (Oehoedoe et al., 2023).

H₃: The expertise of the Audit Committee has a positive effect on ESG Disclosure.

The Independent Audit Committee indicates the independence of the audit committee from management influence in fulfilling its reporting oversight duty. According to Legitimacy Theory (Dowling & Pfeffer, 1975), the audit committee's independence contributes to preserving reporting's credibility and transparency as a way to uphold public legitimacy. Empirical research, however, yields contradictory outcomes. While Fujianti et al. (2024) reported insignificant results, suggesting that the role of independence is still formal, Sari and Fitriani (2024) discovered a significant negative influence of audit committee independence on ESG disclosure since the focus of supervision is still on financial compliance. Conversely, Restyasih et al. (2025) and Hapsari and Arieftiara (2024) believe that an independent and competent audit committee can boost report credibility and strengthen external legitimacy. These disparities in findings imply a research vacuum, suggesting that in the banking industry, audit committee independence is predicted to favorably influence ESG disclosure by boosting reporting integrity.

H₄: The Independent Audit Committee has a positive effect on ESG Disclosure.

Institutional ownership reflects the proportion of shares held by financial institutions and serves as an external monitoring mechanism for corporate management (Lestari et al., 2025). Within the framework of Legitimacy Theory, pressure from institutional investors drives corporations to promote transparency and social responsibility so that company operations fit with

public expectations (Dowling & Pfeffer, 1975). Increased institutional ownership has been found to drive Environmental, Social, and Governance (ESG) disclosure through greater credibility, accountability, and information transparency (Al Farooque et al., 2022). Additionally, the long-term orientation of institutional investors intensifies legitimacy pressures, urging corporations to improve the quality of their sustainability reporting as a form of public accountability (Wardani et al., 2025). Thus, institutional ownership is projected to have a positive influence on ESG disclosure as a method of sustaining the credibility of banking organizations.

H₅: Institutional ownership has a positive effect on ESG disclosure.

This study explores the influence of corporate governance structures on the level of Environmental, Social, and Governance (ESG) disclosure. The independence of the board of commissioners (X₁), the size of the board of commissioners (X₂), the competency (X₃) and independence of the audit committee (X₄), and institutional ownership (X₅) are the independent factors that were examined. The independence and size of the board of commissioners represent the performance of the strategic oversight function, and the expertise and independence of the audit committee describe the quality of reporting supervision, while institutional ownership reflects external oversight pressure. To explain the variance in ESG disclosure levels in the banking industry, these five factors were examined.

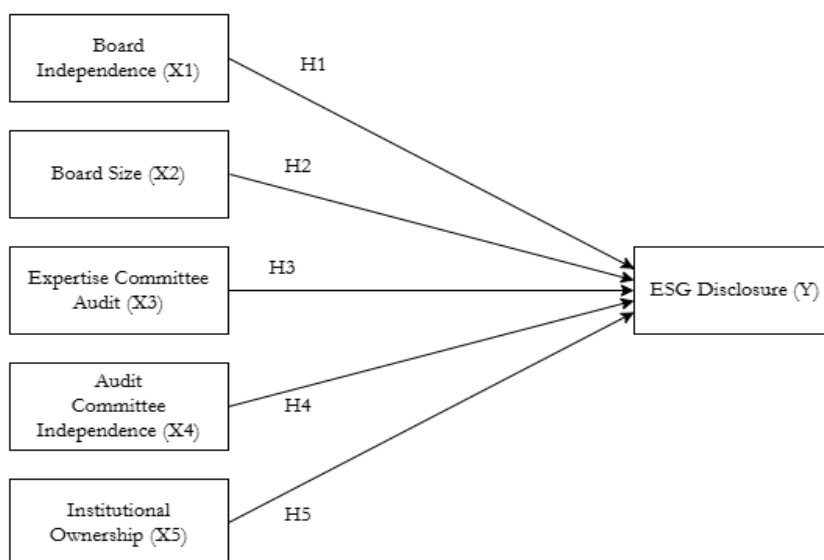


Figure 2. Research Framework

Research Method

This study takes a quantitative approach to investigate the relationship between corporate governance procedures and the level of Environmental, Social, and Governance (ESG) disclosure. The research population covers all banking sub-sectors listed on the Indonesia Stock Exchange (IDX) for the period 2022–2024. The selection of the banking sector is based on the industry's features, which include a high level of regulation and sustainability reporting duties under POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021. The research sample was selected using purposive sampling techniques based on predetermined criteria. This approach was chosen because it allows for the selection of a representative sample and the availability of adequate and relevant data for ESG analysis (Wardani et al., 2025). This study employs panel data, combining cross sectional and time series data, allowing for a more comprehensive analysis of variations across firm and over time in examining ESG disclosure. A summary of the Sampling criteria and research variables is presented in Table 1 and 2.

Table 1. Sample Selection Criteria

No	Sample Criteria	Sum
1	Total population of Banking sector companies in Indonesia	47
2	Banking companies not listed on the IDX consecutively (2022-2024)	-
3	Annual Report and Sustainability Report Unavailable	(6)
4	Companies with incomplete data for research variables	(2)
Total Company Sample		39
Years of Observation (2022-2024)		3
Amount of Research Data		117

Source: Data processed from multiple sources, 2026

Table 2. Measurement Variables

No	Variable	Definition	Indicator	Measurement & Scale
Dependent Variable				
1	ESG Disclosure	The extent to which a company discloses environmental, social, and governance information in its reports.	GRI Standards (GRI 2, GRI 300, GRI 400)	ESG = (Total ESG items disclosed/Total GRI items) × 100% Scale: Ratio
Independent Variables				
2	Independent Board of Commissioners	Board members who have no affiliation with management or controlling shareholders.	Proportion of independent commissioners	BI = (Total independent commissioners/Total board commissioners) Scale: Ratio
3	Board Size	The total number of commissioners responsible for supervising management.	Number of board commissioners	BS = Total board commissioners Scale: Ratio
4	Audit Committee Expertise	The proportion of audit committee members with accounting or financial background.	Educational background in accounting/finance	EDU = (Total audit committee members with accounting/finance background/Total audit committee members) Scale: Ratio
5	Independent Audit Committee	The proportion of audit committee members who are independent from management.	Proportion of independent audit committee members	ACI = (Total independent audit committee members/Total audit committee members) Scale: Ratio
6	Institutional Ownership	The proportion of company shares owned by institutional investors.	Percentage of institutional shareholding	IO = (Total institutional shares/Total outstanding shares) × 100% Scale: Ratio

Source: Data processed from multiple sources, 2026

The data used in this study is secondary data gathered from annual reports, sustainability reports, and the official website of the Indonesia Stock Exchange (www.idx.co.id). Data collection was carried out through the documentation technique by identifying ESG disclosures based on the Global Reporting Initiative (GRI) standards, covering governance (GRI 2), environmental (GRI 300), and social (GRI 400) factors. Data analysis was performed using multiple linear regression analysis with the assistance of IBM SPSS software version 27 (Ghozali, 2005). The analysis stages included descriptive statistics to describe data characteristics, as well as classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure the regression model met the required assumptions before hypothesis testing was conducted (Sari & Fitriani, 2024).

The impact of corporate governance procedures on the degree of Environmental, Social, and Governance (ESG) disclosure is investigated in this study using multiple regression analysis. Hypothesis testing is undertaken after passing through the rounds of descriptive statistical analysis and classical assumption tests to confirm that the regression model fits the criteria for analytical feasibility. The significance threshold utilized in this investigation is 5% ($\alpha = 0.05$). The multiple regression model utilized in this investigation is formulated as follows:

$$ESG = \alpha + \beta_1BI + \beta_2BS + \beta_3EDU + \beta_4ACI + \beta_5IO + \varepsilon$$

Description:

ESG : Environmental, Social, and Governance Disclosure

BI : Board Independence

BS : Board Size

EDU : Financial Expertise

ACI : Audit Committee Independence

IO : Institutional Ownership

e : Error

Results and Discussion

This research was conducted on companies in the banking subsector listed on the Indonesia Stock Exchange over the period 2022–2024, using a purposive sample technique. From the full population of banks fitting the requirements, 39 sample firms were selected that routinely issued annual and sustainability reports, had an audit committee with an accounting or finance background, and had institutional ownership, resulting in 117 company observations. Five independent variables the Independent Board of Commissioners, Board Size, Audit Committee Expertise, Independent Audit Committee, and Institutional Ownership and one dependent variable Environmental, Social, and Governance (ESG) Disclosure are included in this study's analysis. Meeting these requirements shows that the data utilized is full and suitable for analysis to assess the influence of corporate governance procedures on the amount of ESG disclosure in the Indonesian banking sector.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Board Independence	117	0.3333	1.0000	0.587454	0.1031287
Board Size	117	2.0000	13.0000	5.384615	2.5825881
Financial Expertise	117	0.2500	1.0000	0.692321	0.2137128
Audit Committee Independence	117	0.2500	0.7500	0.441528	0.1291763
Institusional ownership	117	10.9373	99.9938	87.861555	16.4939388
ESG Disclosure	117	0.1546	0.9072	0.478456	0.1748503
Valid N (listwise)	117				

Source: SPSS 27 output, 2026

Based on Table 3, the descriptive statistical results show that ESG Disclosure, measured using the GRI index, has a minimum value of 0.1546, a maximum value of 0.9072, an average value of 0.478456, and a standard deviation of 0.1748503, indicating variations in the level of ESG disclosure among the samples. The Independent Board of Commissioners variable has a minimum value of 0.3333 and a maximum value of 1.0000, with an average value of 0.587454 and a standard deviation of 0.1031287, while the Board of Commissioners Size shows a minimum value of 2.0000 and a maximum value of 13.0000, with an average value of 5.384615 and a standard deviation of 2.5825881, reflecting differences in the board's oversight capacity. Furthermore, the Audit Committee's Expertise has a minimum value of 0.2500 and a maximum value of 1.0000, with an

average value of 0.692321 and a standard deviation of 0.2137128, while the Independent Audit Committee shows a minimum value of 0.2500 and a maximum value of 0.7500, with an average value of 0.441528 and a standard deviation of 0.1291763, indicating variations in the level of Audit Committee Independence. Institutional Ownership has a minimum value of 10.9373 and a maximum of 99.9938, with an average value of 87.861555 and a standard deviation of 16.4939388, suggesting the dominance of institutional investors in the ownership structure of the sample companies.

Table 4. Normality Test Result

		Unstandardized Residual
N		117
Normal Parameters ^{a,b}	Mean	0
	Std. Deviation	0.13494611
Most Extreme Differences	Absolute	0.066
	Positive	0.066
	Negative	-0.06
Test Statistic		0.066
Asymp. Sig. (2-tailed) ^c		.200 ^d

Source: SPSS 27 Output Result, 2026

The results of the normality test based on Table 4 demonstrate that the residual values are regularly distributed, indicating that the classical assumption of normality has been satisfied. The Asymp. Sig value is 0.200 > 0.05.

Table 5. Multicollinearity Test Result

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board Independence	0.946	1.057
	Board Size	0.529	1.89
	Financial Expertise	0.935	1.069
	Audit Committee Independence	0.586	1.706
	Institutional ownership	0.95	1.053

a. Dependent Variable: ESG

Source: SPSS 27 Output Result, 2026

Based on Table 5, all independent variables have tolerance values > 0.10 and VIF < 10; therefore, it can be inferred that the regression model does not experience multicollinearity and there is no connection between the independent variables. Furthermore, the significance values obtained for each variable indicate that the regression model in this study is free from heteroscedasticity issues and is suitable for further analysis, see Table 6.

Table 6. Heteroskedasticity Test Result

Model		t	Sig.
1	(Constant)	1.123	0.264
	Board Independence	-0.227	0.821
	Board Size	-0.373	0.71
	Financial Expertise	0.077	0.938
	Audit Committee Independence	-0.377	0.707
	Institutional ownership	1.591	0.114

Source: SPSS 27 Output Result, 2026

Table 7. Autocorrelation Test Result

Model	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.578	0.10394	1.864

Source: SPSS 27 Output Result, 2026

Based on the data from Table 7 in decision-making, the null hypothesis is accepted, suggesting there is no autocorrelation, as $du < dw < 4 - du$. Therefore, the autocorrelation test result in this study is $du < dw < 4 - du = 1.7883 < 1.864 < 2.2117$. It can be inferred that there is no autocorrelation in this investigation.

Regression Analysis Result

In this study, multiple regression analysis was used to examine the influence of the Independent Commissioner Board, Board Size, Audit Committee Expertise, Independent Audit Committee, and Institutional Ownership on ESG Disclosure in banking sub-sector companies listed on the IDX for the period 2022–2024. The following are the outcomes of the statistical computations made using regression analysis:

Table 8. Result of Multiple Regression

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-0.381	0.134		-2.838	.005
Board Independence	0.135	0.033	0.324	4.082	.000
Board Size	0.026	0.007	0.320	3.917	.000
Financial Expertise	0.000	0.001	0.029	0.354	.724
Audit Committee Independence	0.009	0.004	0.190	2.390	.019
Institutional ownership	0.002	0.001	0.278	3.474	.001

a. Dependent Variable: ESG

Source: SPSS 27 Output Result, 2026

Based on the findings of the multiple regression analysis reported in Table 8, the following multiple linear regression equation is obtained:

$$ESG = -0,381 + 0,135BI + 0,026BS - 0.000EDU + 0,009ACI + 0,002IO + \varepsilon$$

Discussion

The hypothesis testing results utilizing the t-statistic test were performed to ascertain the partial impact of each independent variable on the dependent variable. The independent variables examined comprise Independent Board of Commissioners, Board Size, Audit Committee Expertise, Independent Audit Committee, and Institutional Ownership. The decision-making criteria are predicated on a significant value with an error level (α) of 0.05. If the significance value is less than 0.05, the independent variable is deemed to exert a significant effect on ESG Disclosure; conversely, if the significance value is greater than or equal to 0.05, the independent variable is not regarded as having a significant effect.

The hypothesis testing findings from the t-statistic test table indicate that both the Independent Board of Commissioners and Board Size possess a significance value of 0.000, which is less than 0.05, hence demonstrating a positive and significant impact on ESG Disclosure. The

Audit Committee Expertise exhibits a significance value of 0.724, exceeding 0.05, so indicating that this variable does not significantly influence ESG Disclosure. Additionally, the Independent Audit Committee possesses a significance value of 0.019, which is less than 0.05, indicating a strong impact on ESG Disclosure. Institutional Ownership has a significance value of 0.001, which is less than 0.05, indicating that it positively and significantly influences ESG disclosure. The adjusted R-squared score is 0.578, indicating that 57.80 percent of the variability in the dependent variables can be accounted for by the independent variables, while the remaining 42.20 percent is attributable to other variables not incorporated in the regression model.

The Influence of the Independent Board of Commissioners on ESG Disclosure

The Independent Board of Commissioners variable was found to have a positive and significant impact on ESG Disclosure, validating the research hypothesis that a company's ESG Disclosure will be more comprehensive the more Independent Commissioners there are. The presence of Independent Commissioners indicates an unbiased oversight mechanism, as they are devoid of conflicts of interest with management or controlling shareholders, thereby enhancing transparency and elevating the quality of ESG disclosure (Septiana & Puspawati, 2022). This conclusion is backed by Nicolo et al. (2023) and Susanto et al. (2024), who highlight how independent directors play a key role in ensuring compliance and improving the quality of ESG reporting, and by Fujianti et al., (2024), who confirm that having independent board members boosts the trustworthiness and reliability of sustainability reporting. In line with legitimacy theory (Dowling & Pfeffer, 1975), companies need to align their activities and reporting with social values and expectations to maintain legitimacy; thus, ESG Disclosures serve as a means of legitimacy communication that is transparently and accountably structured through the strategic role of independent directors (Sari & Fitriani, 2024). Having an Independent Board of Commissioners improves a company's legitimacy by improving the quality of ESG disclosures in the banking industry, which is closely watched by regulators and relies heavily on public trust.

The Influence of the Board Size on ESG Disclosure

The variable of Board Size was demonstrated to exert a positive and significant impact on ESG Disclosure, hence corroborating the notion that organizations with a greater number of board members are inclined to share ESG information more comprehensively (Nicolo et al., 2023). The size of the board indicates its overall ability to execute oversight and strategic decision-making functions concerning sustainability (Sari & Fitriani, 2024). A larger board has more resources, knowledge, and different opinions, which helps in providing better ESG reporting; however, its success depends on how well the members work together to maintain effective oversight (Tang & Chrisna, 2025). According to Legitimacy Theory, having the right number of board members helps companies better respond to social pressures and what the public expects, while ESG disclosure serves as a way to show how the company's structure and policies align with societal values (Dowling & Pfeffer, 1975). In the heavily regulated banking sector, which relies significantly on public trust, a board with a sufficient number of members possesses enhanced oversight capabilities in addressing risk complexity and sustainability requirements, thereby fostering greater transparency and the quality of ESG Disclosures that uphold institutional reputation and legitimacy (Fujianti et al., 2024).

The Influence of the Audit Committee Expertise on ESG Disclosure

The research results reveal that the Expertise of the Audit Committee has a positive but not significant effect on ESG Disclosure hence, the research hypothesis is not validated. The growth of ESG disclosures has not yet been significantly impacted by increasing the percentage of audit committee members with accounting or financial backgrounds, despite a good trend in the

relationship's direction (Lendengtariang & Bimo, 2022). This need is consistent with Setiawan and Ridaryanto (2022) assertion that audit committees' accounting competence often concentrates more on compliance and the caliber of financial reporting than on non-financial disclosures. Similar findings were also provided by Redita et al. (2024), who indicated that the effectiveness of ESG supervision by audit committees is not yet optimal because the oversight agenda is still dominated by financial considerations. From the standpoint of legitimacy theory by Dowling and Pfeffer (1975), these results demonstrate that financial compliance alone is inadequate to meet the increasingly complicated criteria of social legitimacy. Therefore, the audit committee's financial competence cannot be fully exploited to promote ESG Disclosure as a means of communicating company legitimacy to the public without sufficient sustainability focus and understanding (Restyasih et al., 2025).

The Influence of the Independent Audit Committees on ESG Disclosure

The research hypothesis is supported by the findings, which show that ESG disclosure is positively and significantly impacted by the Independent Audit Committee. This research demonstrates that the higher the amount of audit committee independence, the more successful the oversight function performed in promoting transparency and the quality of sustainability reporting (Itan et al., 2025). This finding agrees with Fujianti et al. (2024), who said that having an independent audit committee makes oversight stronger and improves the accountability of ESG reporting; it is also backed by Sari and Fitriani (2024), who discovered that an independent audit committee can expand the range of ESG disclosure by providing more objective oversight. From the standpoint of legitimacy theory Dowling and Pfeffer (1975), independent audit committees act as a governance mechanism, ensuring that sustainability reporting conforms with social values and expectations, hence improving corporate legitimacy. An independent audit committee is a crucial tool for guaranteeing the reliability of ESG data and upholding institutional legitimacy through open and responsible reporting in the highly regulated banking industry, which greatly depends on public trust.

The Influence of the Institutional Ownership on ESG Disclosure

The Institutional Ownership variable is proved to have a positive and significant influence on ESG Disclosure hence, the regression analysis results confirm the research hypothesis that the larger the proportion of Institutional Ownership, the higher the company's degree of ESG Disclosure (Vivianita et al., 2024). This finding aligns with Susanto et al. (2024), who stated that institutional investors enhance the credibility and accountability of ESG reporting through reputational pressure on management, It is further supported by (Wardani et al., 2025), who found that Institutional Ownership promotes information disclosure and discourages managerial opportunistic behavior. Furthermore, Lestari et al. (2025) have shown that institutional investors' long-term focus enhances ESG disclosure as a means of public accountability. Within the framework of legitimacy theory (Dowling & Pfeffer, 1975), Institutional Ownership acts as a source of external legitimacy pressure that motivates corporations to align their ESG disclosures with stakeholder expectations. In the banking sector, which carries high systemic risk and is heavily reliant on public trust, the role of institutional investors as an external oversight mechanism encourages bank management to increase ESG transparency to maintain reputation, mitigate sustainability risks, and preserve institutional legitimacy.

Conclusion

The purpose of this study is to examine how corporate governance practices affect the degree of Environmental, Social, and Governance (ESG) disclosure in Indonesia's banking industry. The study found that ESG disclosure is positively and significantly influenced by the Independent Board of Commissioners, Board Size, Independent Audit Committee, and Institutional Ownership.

This suggests that increased transparency in sustainability reporting can be fueled by both external demand from institutional investors and robust internal oversight procedures. Having independent commissioners and a big enough board makes oversight stronger; an independent audit committee helps make reporting more objective and trustworthy; and institutional ownership acts as a good external check, especially in banks, which rely heavily on public trust and face high risks. However, ESG disclosure is positively, albeit somewhat, impacted by the Audit Committee's experience. According to this research, proficiency in only financial and accounting-related areas is insufficient to substantially advance ESG transparency. Therefore, a deeper understanding and focus on sustainability issues are necessary for the Audit Committee to play a more effective role.

These findings theoretically endorse Legitimacy Theory, which posits that firms utilize ESG disclosures to acquire and sustain societal legitimacy. This analysis enhances the literature by demonstrating that governance efficiency is influenced not just by formal structures but also by the orientation and focus of supervision, especially within the highly regulated banking sector. The findings of this study suggest that banking management should enhance the function of the board of commissioners and provide a balanced skill set within the audit committee, incorporating not only financial expertise but also an understanding of sustainability issues. These findings can assist regulators in assessing sustainability reporting policies to prioritize the quality and substance of ESG Disclosures, while for institutional investors, the research outcomes reinforce their strategic role in promoting sustainability transparency and accountability.

This study has limitations because it only focuses on banks listed on the Indonesia Stock Exchange with a small sample size and a three-year observation period, thus not completely reflecting the long-term dynamics of ESG Disclosure policies. The research findings are also heavily reliant on the accuracy and consistency of the information provided by the companies due to the use of secondary data from sustainability reports and annual reports. Therefore, it is recommended that future studies expand the industrial sector's coverage, lengthen the observation period, and include additional governance variables, such as the frequency of board meetings, the sustainability backgrounds of board members, or the presence of special ESG committees. To better understand how corporate governance influences more significant sustainability behaviors, future study may potentially employ different methodological techniques, such as dynamic panel analysis or qualitative approaches.

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