

Jurnal Ekonomi dan Bisnis

<https://jurnal.unikal.ac.id/index.php/jebi>

ESG, Corporate Governance, and Financial Performance: Does Audit Quality Matter?

Nafisah Ika Habibatun Nisa¹, Rika Adriyana²

^{1,2}Accounting Study Program, Faculty of Economics and Business, Universitas Pekalongan, Indonesia

*Corresponding author²

ARTICLE INFO

ABSTRACT

Article history:

Submitted: 10 August 2026

Revised: 14 August 2026

Accepted: 5 October 2026

Keywords: Audit Quality; Board Size; Environmental, Social, Governance; Financial Performance; Institutional Ownership.

This study aims to examine the effect of Environmental, Social, and Governance (ESG) factors, board size, and institutional ownership on financial performance, with audit quality as a moderating variable. The study employs an explanatory quantitative approach, using secondary data from the annual and sustainability reports of energy-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2025. Purposive sampling yielded 95 company-year observations. The data were analysed using partial least squares structural equation modelling (PLS-SEM) with WarpPLS 8.0. The results indicate that ESG and board size did not significantly affect financial performance, while institutional ownership had a positive and significant effect. Audit quality did not moderate the effects of ESG, board size, or institutional ownership on financial performance. These findings suggest that institutional ownership is a stronger governance mechanism than ESG disclosure or the number of board members in explaining financial performance.

INTRODUCTION

Information in financial statements is a key consideration for managers and stakeholders when making business decisions (Hariadi et al., 2022). It is an important source of information for assessing the company's financial performance (Aziizah et al., 2022). Financial performance reflects the company's success in generating profits (Safitri et al., 2024) and is considered by investors when making investment decisions (Amylia et al., 2024). In addition, management uses financial performance information to evaluate profitability and operational efficiency and to plan for company growth (Indrawati et al., 2023). For various stakeholders, financial performance also provides an overview of the company's financial condition and its ability to create economic value from the resources it owns (Syariva et al., 2025). Therefore, optimal financial performance needs to be balanced with the company's ability to maintain business sustainability and stability amid increasingly dynamic markets.

Developments in the energy sector show that an increase in operational activity is not always followed by an increase in financial performance. PT Bayan Resources Tbk (BYAN), for example, experienced a decrease of around 25% in net profit in 2024 despite higher production and sales volumes, owing to weakening global coal prices (Fikri, 2025). Similar conditions occurred in PT Bukit Asam Tbk and PT Indo Tambangraya Megah Tbk, which experienced a decline in profit in 2024 because of global coal price pressures (Natalia, 2024).

Furthermore, empirical data reveal dynamic trends in Environmental, Social, and Governance (ESG) reporting and corporate governance practices across energy firms listed on the Indonesia Stock Exchange (IDX) during 2021–2025. ESG disclosure levels rose substantially from an average index of 0.58 in 2021 to 0.73 in 2025 following the mandatory implementation of Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017. Meanwhile, governance structures stabilised, with an average board size of 5.69 members and institutional ownership remaining dominant at an average of 63.48%. These examples show that energy-sector companies face external risks that can affect financial performance even when they are able to increase operational activity.

These challenges are increasingly complex as the demands for the implementation of ESG principles grow. The issuance of Presidential Regulation Number 112 of 2022 concerning the acceleration of renewable energy development encourages energy companies to transform towards more sustainable business activities. However, the implementation of ESG can also have cost consequences in the short term. PT Harum Energy Tbk, for example, increased investment in social and environmental aspects, but experienced a decrease in net profit in 2024. This condition suggests a possible trade-off between achieving sustainability goals and short-term financial performance. In this context, the corporate governance mechanism, including board size and institutional ownership, is important because it relates to the effectiveness of corporate supervision and decision-making.

Several studies have examined factors that affect financial performance, particularly ESG, board size, and institutional ownership. The effect of ESG on financial performance was studied by Jucá et al. (2024), Shafitranata et al. (2026), Ulvy and Herianti (2026), Nawangsari (2026), Anggraini and Sari (2024), Fernandez et al. (2025), and Wati and Wijayanti (2025). Meanwhile, board size has been studied by Hariadi et al. (2022), Fernandez et al. (2025), and Supatmin (2025), while institutional ownership has been studied by Firdaus (2025), Hariadi et al. (2022), Nuraini and Cahyadi (2025), and Supatmin (2025).

Despite extensive research, the findings on the effect of ESG, board size, and institutional ownership on financial performance remain inconsistent. This inconsistency indicates that the relationships between sustainability factors, governance mechanisms, and financial performance warrant further study. In addition, audit quality is an important aspect because quality audits can increase the credibility of financial information and strengthen the company's supervisory mechanism. The role of audit quality as a moderating variable is crucial because high-quality external audits, typically represented by Big Four audit firms, provide an additional layer of external governance by verifying both financial and non-financial disclosures and mitigating information asymmetry between agents and principals, in line with Agency Theory. Independent and high-reputation external audits can enhance the reliability of ESG disclosures, deter managerial opportunism, and help governance mechanisms translate into better financial outcomes. Wati and Wijayanti (2025) tested the effect of ESG on financial performance with audit quality as a moderating variable. However, their study did not include board size and institutional ownership in the same model.

This study extends the research of Wati and Wijayanti (2025) by adding board size and institutional ownership as independent variables, following Hariadi et al. (2022). The addition of these two variables is expected to provide a more comprehensive perspective on the effect of ESG and corporate governance mechanisms on financial performance. The novelty of this study therefore lies in integrating ESG, corporate governance mechanisms, and audit quality as a moderating variable in a single empirical model for energy-sector companies.

Based on these phenomena and research gaps, this study aims to analyse the effect of ESG, board size, and institutional ownership on financial performance and to examine the role of audit quality in moderating these relationships in energy-sector companies listed on the IDX for the 2021–2025 period. This research is expected to contribute empirically to the literature on ESG, corporate governance, audit quality, and financial performance, as well as to provide implications for companies and investors in evaluating the sustainability and the quality of corporate governance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

Stakeholder Theory serves as the main foundation for explaining the relationship between ESG and financial performance. This theory explains that companies need to meet the interests of various stakeholders through ESG sustainability and transparency practices. Good ESG disclosures can increase stakeholder confidence, attract investors, and ultimately support financial performance. This argument is supported by Hariadi et al. (2022), Indrawati et al. (2023), Sumarno et al. (2023), Jucá et al. (2024), and Wardani et al. (2025).

Agency Theory

Agency Theory is used to explain the relationship between corporate governance, board size, institutional ownership, audit quality, and financial performance. Conflicts of interest and information asymmetry between principals and agents create a need for effective supervisory mechanisms. Good corporate governance (GCG), the board of directors, institutional ownership, and quality audits can serve as supervisory mechanisms to limit management's opportunistic behaviour and reduce agency costs. This explanation is supported by Jensen and Meckling (1976), as cited in Yendrawati and Kinanti (2024), and by Ernawati (2021), Himawan (2021), Lutfiana and Fitriati (2022), Solikhah (2022), and Shafira and Astuti (2024).

Financial Performance

Financial performance describes the company's ability to generate profits and manage resources effectively (Sitanggang, 2021). Financial performance is also reflected in financial statements and is the basis on which stakeholders evaluate the condition and success of company management (Himawan, 2021).

Environmental, Social, and Governance (ESG)

Proponents argue that ESG implementation can increase efficiency, reduce risk, strengthen reputation, and create long-term value. However, ESG implementation can also require large investments, so its impact on financial performance may differ between companies. This is an important basis for re-examining the relationship between ESG and financial performance. This argument is reflected in the literature (Sitorus et al., 2024; Husnah, 2023; Wati & Wijayanti, 2025; Jucá et al., 2024; Shafitranata et al., 2026; Ulvy & Herianti, 2026; Nawangsari, 2026; Anggraini & Sari, 2024; Fernandez et al., 2025).

Board Size

Board size refers to the number of board members responsible for managing the company. Boards with an adequate number of members can provide more diverse expertise,

experience, and perspectives, thereby improving the effectiveness of oversight and decision-making (Hariadi et al., 2022; Kyere & Ausloos, 2021). However, a board that is too large may also cause coordination and effectiveness problems. Therefore, the effect of board size on financial performance still needs to be tested empirically.

Institutional Ownership

Institutional ownership can serve as a monitoring mechanism for management. The greater the institutional ownership, the greater the ability of institutional shareholders to monitor and influence the company's decision-making (Himawan, 2021; Sitanggang, 2021). Such supervision can limit management's opportunistic behaviour and support improvements in financial performance (Kirimi, 2024; Sipayung et al., 2024).

Audit Quality

Audit quality reflects the auditor's ability to detect and report material misstatements and to ensure that financial information conforms to auditing standards (Wati & Wijayanti, 2025). High audit quality can strengthen oversight mechanisms, reduce information asymmetry, and increase the credibility of financial statements. The reputation of the public accounting firm (KAP), particularly membership of the Big Four, is often used as an indicator of audit quality because it relates to the competence and independence of the auditor (Laksana & Handayani, 2022).

Hypothesis Development

The Effect of ESG on Financial Performance

ESG reflects a company's practices in environmental, social, and governance aspects (Sitorus et al., 2024; Santoso et al., 2025; Indrawati et al., 2023). Based on Stakeholder Theory, fulfilling the interests of stakeholders through ESG practices can increase legitimacy, investor trust, and access to resources, thereby supporting financial performance (Nawangsari, 2026; Wati & Wijayanti, 2025). High levels of ESG disclosure can also improve reputation and lower business risk. Shafitranata et al. (2026), Nawangsari (2026), and Anggraini and Sari (2024) reported that ESG has a positive effect on financial performance.

H1: ESG has a positive effect on financial performance.

The Effect of Board Size on Financial Performance

Board size is related to the effectiveness of the company's supervision and decision-making. Based on Agency Theory, the board of directors plays a role in supervising management, reducing opportunistic behaviour, and reducing agency costs. An adequate number of members also allows for a diversity of expertise, experience, and perspectives in decision-making (Lutfiana & Fitriati, 2022; Sarpong-Danquah et al., 2023). Research by Fernandez et al. (2025) and Supatmin (2025) indicated that board size has a positive effect on financial performance.

H2: Board size has a positive effect on financial performance.

The Effect of Institutional Ownership on Financial Performance

Institutional ownership can be an effective monitoring mechanism because institutional investors have the resources, capabilities, and incentives to oversee

management (Wardani et al., 2025). Based on Agency Theory, increasing institutional ownership can strengthen supervision, limit opportunistic management behaviour, and encourage decision-making that is in line with the interests of shareholders (Kirimi, 2024; Murwaningsari, 2009). More effective supervision of this kind has the potential to improve financial performance. This is supported by Hariadi et al. (2022), Fernandez et al. (2025), and Supatmin (2025).

H3: Institutional ownership has a positive effect on financial performance.

Audit Quality Moderates the Effect of ESG on Financial Performance

Audit quality increases the credibility and reliability of the information that the company conveys to stakeholders. Based on Stakeholder Theory, ESG information will be more valuable if it has high credibility (Ulvy & Herianti, 2026). Quality audits can improve the reliability of ESG disclosures, reduce information asymmetry, and strengthen stakeholder trust in the company's sustainability commitments (Wati & Wijayanti, 2025). Thus, audit quality can strengthen the effect of ESG on financial performance. Ulvy and Herianti (2026) and Wati and Wijayanti (2025) found that audit quality strengthens this relationship.

H4: Audit quality strengthens the effect of ESG on financial performance.

Audit Quality Moderates the Effect of Board Size on Financial Performance

Based on Agency Theory, board size plays a role in supervising management and reducing agency conflicts. The effectiveness of such supervision requires reliable financial information. Audit quality can increase the credibility of financial statements, reduce information asymmetry, and help the board of directors obtain a better information base for decision-making. Qualified auditors can also detect material misstatements and curb earnings management practices. Fernandez et al. (2025) showed that audit quality can strengthen governance, reduce agency costs, and improve financial performance.

H5: Audit quality strengthens the effect of board size on financial performance.

Audit Quality Moderates the Effect of Institutional Ownership on Financial Performance

Institutional ownership has substantial monitoring capacity to supervise management and encourage improvements in company performance (Ernawati, 2021; Lutfiana & Fitriati, 2022). Based on Agency Theory, institutional investor supervision will be more effective when supported by credible and transparent financial information. Audit quality can improve the reliability of financial statements, reduce misstatements and earnings management, and reduce information asymmetry. This allows institutional investors to monitor and make decisions more effectively, which in turn strengthens the effect of institutional ownership on financial performance.

H6: Audit quality strengthens the effect of institutional ownership on financial performance.

RESEARCH METHODOLOGY

This study uses a quantitative approach with an explanatory research design to examine the effect of ESG, board size, and institutional ownership on financial performance as well as the role of audit quality as a moderating variable. The research population consists of energy-sector companies listed on the IDX during the period 2021–2025. The sample was selected using purposive sampling based on the availability of annual reports, sustainability reports, and the

data required for the study. Based on these criteria, 95 company-year observations were obtained.

Table 1 Variable Measurement

Variable	Proxies/Measurements	Reference
Financial Performance (Y)	Return on Assets (ROA)	Aziizah et al. (2022); Lutfiana & Fitriati (2022)
ESG (X_1)	ESG disclosure index based on Global Reporting Initiative (GRI) disclosures	Sitorus et al. (2024); Wati & Wijayanti (2025)
Board Size (BS; X_2)	Number of members of the board of directors	Hariadi et al. (2022)
Institutional Ownership (IO; X_3)	Percentage of shares owned by institutions	Himawan (2021); Sitanggang (2021)
Audit Quality (AQ; M)	Dummy variable: 1 = Big Four KAP; 0 = Non-Big Four KAP	Laksana & Handayani (2022); Wati & Wijayanti (2025)

Data analysis was performed using variance-based structural equation modelling via partial least squares (PLS-SEM) in WarpPLS 8.0. The analytical procedure followed three stages:

1. Evaluation of the Measurement Model (Outer Model): This stage assesses the validity and reliability of the indicators used to measure each latent construct:
 - a. Convergent Validity: Evaluated using indicator factor loadings and the average variance extracted (AVE). An indicator is considered valid if its factor loading exceeds 0.70, and a construct is considered valid if its AVE is greater than 0.50, indicating that the construct explains more than 50% of the variance in its indicators.
 - b. Discriminant Validity: Verifies that a given construct is empirically distinct from other constructs in the model. This is established when the square root of the AVE for each construct is greater than its highest correlation with any other construct.
 - c. Construct Reliability: Measures the internal consistency of the indicators using composite reliability and Cronbach's alpha. Both values should exceed the recommended threshold of 0.70 to demonstrate adequate reliability.
2. Model Fit Assessment (Goodness of Fit (GoF)): This stage evaluates how well the conceptual structural model fits the sample data. In WarpPLS 8.0, model fit is evaluated using the following key indices:
 - a. Average path coefficient (APC), average R -squared (ARS), and average adjusted R -squared (AARS): Each must be statistically significant, with $p < 0.05$, for the model to be deemed acceptable.
 - b. Average block variance inflation factor (AVIF) and average full collinearity VIF (AFVIF): Evaluate potential lateral and vertical multicollinearity among constructs. Values should ideally be < 3.3 , although values < 5.0 are acceptable.
 - c. Tenenhaus GoF: Assesses the overall predictive power of the model, categorised as small (≥ 0.10), medium (≥ 0.25), or large (≥ 0.36).

3. Evaluation of the Structural Model (Inner Model) and Hypothesis Testing: The final stage tests the direct and moderating relationships hypothesised between the variables:
 - a. Path coefficients and p -values: Determine the direction (positive or negative) and statistical significance of the hypothesised relationships. Hypotheses are supported if $p < 0.05$ (at a 5% significance level).
 - b. Coefficient of determination (R^2): Measures the proportion of variance in the dependent variable (financial performance) explained by the independent and moderating variables in the model.
 - c. Predictive relevance (Q^2): Assesses the out-of-sample predictive capacity of the model. A Q^2 value above 0 indicates adequate predictive relevance.
 - d. Effect size (f^2): Evaluates the relative contribution of each predictor variable to the R^2 of the target construct (categorised as weak = 0.02, moderate = 0.15, and large = 0.35); values below 0.02 are considered very weak.
 - e. Moderation Analysis (Interaction Effect): The moderating role of audit quality is tested via two-way interaction terms (AQ $\times$ ESG, AQ $\times$ BS, and AQ $\times$ IO). A statistically significant interaction coefficient ($p < 0.05$) indicates that audit quality significantly moderates the relationship between the independent variable and financial performance.

RESULTS AND DISCUSSION

Table 2 Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	0.001	0.955	0.127	0.150
ESG	0.230	1.000	0.725	0.215
Board Size	2.000	15.000	5.691	2.468
Institutional Ownership (%)	19.990	94.250	63.475	17.274

Financial performance had a mean of 0.127 with considerable variation. ESG had a mean of 0.725, which indicates a relatively high level of disclosure. The average board size was 5.691 members. Institutional ownership averaged 63.475%, indicating the dominance of institutional ownership in the sample. Audit quality had a mean of 0.691 for the 95 observations; 63 (66.32%) were audited by Big Four KAPs and 32 (33.68%) by non-Big Four KAPs.

Table 3 Goodness of Fit and Predictive Ability

Indicator	Value	p -Value/Criterion	Remarks
APC	0.149	$0.041 < 0.05$	Met
ARS	0.257	$0.004 < 0.05$	Met
AARS	0.197	$0.016 < 0.05$	Met
AVIF	1.470	≤ 5	Met
AFVIF	1.594	≤ 5	Met
Tenenhaus GoF	0.507	≥ 0.36	Large

Source: Secondary data, processed by the authors (2026)

All goodness-of-fit indicators met the criteria. The AVIF and AFVIF values were below the accepted limit, so there were no collinearity problems. The Tenenhaus GoF value of 0.507 falls in the large category.

Table 4 Model Fit and Effect Size Assessment

Model Measure	Value	Interpretation
R-squared	0.257	The model explains 25.7% of the variance in financial performance
Q-squared	0.267	Has predictive relevance
Effect size ESG	0.010	Very weak*
Effect size BS	0.007	Very weak*
Effect size IO	0.057	Weak
AQ × ESG	0.010	Very weak
AQ × BS	0.007	Very weak
AQ × IO	0.057	Weak

Source: Secondary data, processed by the authors (2026)

The model evaluation showed an R^2 value of 0.257, indicating that the model explained 25.7% of the variance in financial performance, while the remaining 74.3% was attributable to other factors outside the model. The Q^2 value of 0.267 indicated that the model had predictive relevance. The effect size results showed that ESG (0.010) and BS (0.007) had very weak effects, while IO (0.057) had a weak effect. Similarly, AQ × ESG (0.010) and AQ × BS (0.007) had very weak effects, whereas AQ × IO (0.057) had a weak effect. Overall, the model demonstrated predictive relevance, although the contribution of the individual and interaction effects remained relatively limited.

Table 5 Hypothesis Testing

Hypothesis	Path Coefficient	p-Value	Decision
H1: ESG → Financial Performance	0.153	0.077	Not supported
H2: BS → Financial Performance	0.142	0.092	Not supported
H3: IO → Financial Performance	0.379	< 0.001	Supported
H4: AQ × ESG → Financial Performance	-0.115	0.144	Not supported
H5: AQ × BS → Financial Performance	-0.038	0.363	Not supported
H6: AQ × IO → Financial Performance	-0.067	0.270	Not supported

Source: Secondary data, processed by the authors (2026)

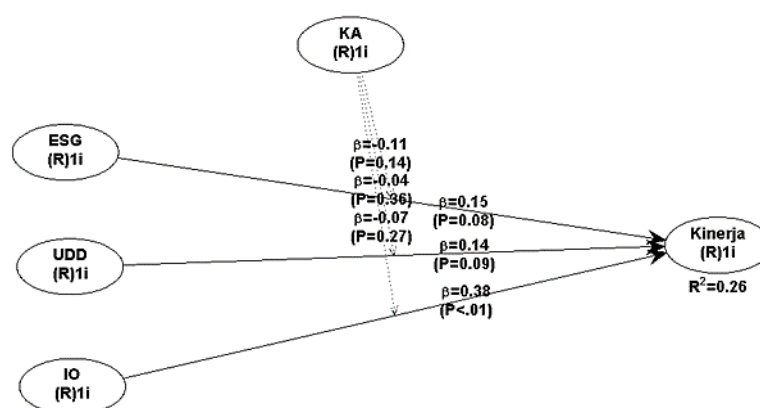


Figure 1 Structural Model Results

Source: Secondary data, processed by the authors (2026)

The Effect of ESG on Financial Performance

The test results showed that ESG had a path coefficient of 0.153 with a *p*-value of 0.077. The value is greater than 0.05, so ESG did not have a significant effect on financial performance, as proxied by ROA. Although the coefficient was positive, the effect was not statistically strong enough to show that greater ESG disclosure improves a company's financial performance. Thus, H1 was not supported. This indicates that the high level of ESG disclosure among energy-sector companies was not directly reflected in higher profitability during the study period.

The findings may be explained by the fact that ESG benefits tend to be long-term, whereas ROA better reflects a company's short-term performance. Based on Stakeholder Theory, ESG should increase the company's trust and legitimacy in the eyes of stakeholders, but these benefits do not necessarily translate immediately into higher profitability. The results of this study are in line with Shafitranata et al. (2026), Nawangsari (2026), and Fernandez et al. (2025), who found that ESG does not affect financial performance.

The Effect of Board Size on Financial Performance

The test results showed that board size had a path coefficient of 0.142 with a *p*-value of 0.092. Because the *p*-value is greater than 0.05, board size has not been shown to have a significant effect on financial performance. Despite the positive direction of the relationship, the number of board members did not significantly increase the company's ROA. Thus, H2 was not supported. These results suggest that the number of board members does not necessarily reflect the effectiveness of supervision or the quality of the company's decision-making.

Based on Agency Theory, board size plays a role in supervising management and reducing conflicts of interest. However, the effectiveness of these functions is determined not only by the number of members, but also by competence, coordination, and the quality of decision-making. A larger board can even increase the complexity of coordination and slow down decision-making. This finding is in line with Hariadi et al. (2022), who reported that board size does not affect financial performance.

The Effect of Institutional Ownership on Financial Performance

The test results showed that institutional ownership had a path coefficient of 0.379 with a p -value below 0.001. This value is smaller than 0.05, so institutional ownership had a positive and significant effect on financial performance. Thus, H3 was supported. These results suggest that the larger the proportion of institutional ownership, the greater the ability of institutional investors to supervise management. This supervision can encourage more effective and efficient management of resources, which supports improvements in the company's ROA.

The findings support Agency Theory, which holds that institutional ownership can be a monitoring mechanism to reduce agency conflicts and opportunistic management behaviour. Institutional investors generally have stronger resources, access to information, and supervisory capabilities than individual investors. This allows management decisions to be supervised more effectively, which can improve the company's performance. The results of this study are in line with Hariadi et al. (2022) and Sellina et al. (2025), who found that institutional ownership has a positive effect on financial performance.

The Role of Audit Quality in Moderating the Effect of ESG

The interaction between ESG and audit quality had a path coefficient of -0.115 with a p -value of 0.144. Because the p -value is greater than 0.05, audit quality has not been shown to moderate the effect of ESG on financial performance. The negative interaction coefficient indicates a tendency for audit quality to weaken the relationship between ESG and financial performance, but this tendency was not statistically significant. Thus, H4 was not supported. These results show that the use of high-quality auditors did not strengthen the benefits of ESG disclosure for the ROA of energy-sector companies.

This lack of moderation may stem from a mismatch between short-term implementation costs and long-term economic value creation. Implementing ESG practices in energy firms requires substantial upfront capital expenditure (capex) for green technology, energy efficiency, and environmental compliance, which may depress short-term accounting profitability (ROA). The primary responsibility of external auditors is to verify the accuracy of historical accounting information and to ensure compliance with reporting standards; they are neither tasked with nor capable of converting these compliance expenditures into immediate operating revenue. Consequently, auditor assurance is unlikely to offset the initial financial burden of ESG investments. This result aligns with Buallay (2018) and Garcia et al. (2017), who observed that in environmentally sensitive sectors, external audit assurance cannot negate the initial cost burden of ESG implementation. Furthermore, Al-Shaer and Zaman (2016) noted that employing Big Four auditors in emerging markets often serves as a regulatory compliance signal rather than a strategic mechanism to lower operational ESG costs.

The Role of Audit Quality in Moderating the Effect of Board Size

The test results showed that the interaction between board size and audit quality had a *path coefficient* of -0.038 with a p -value of 0.363. A p -value greater than 0.05 indicates that audit quality has not been shown to moderate the effect of board size on financial performance. A negative interaction coefficient indicates a tendency for the relationship to weaken, but it was not statistically significant. Thus, H5 was not supported. These results indicate that the presence of quality auditors did not increase the effectiveness of board size in improving the company's financial performance.

Based on Agency Theory, audit quality can help reduce information asymmetry and increase the credibility of the information the board uses in conducting supervision. However, the results show that audit quality had no additional effect on the relationship between board size and financial performance. This may be because external audits cannot substitute for internal governance dynamics. Financial performance may depend more on the operational competence, technical expertise, internal coordination, and decision-making speed of board members (substance over form) than on headcount alone. Because financial audits are conducted retrospectively after the close of the accounting period, external audit assurance cannot intervene in board meetings to resolve internal coordination bottlenecks or improve real-time strategic oversight. This finding supports the arguments of Sarpong-Danquah et al. (2022) and Kyere and Ausloos (2021), who asserted that external audit mechanisms lack direct influence over the internal dynamics and operational effectiveness of corporate boards.

The Role of Audit Quality in Moderating the Effect of Institutional Ownership

The interaction between institutional ownership and audit quality had a path coefficient of -0.067 with a p -value of 0.270 . A p -value greater than 0.05 indicates that audit quality did not moderate the effect of institutional ownership on financial performance. Although the interaction coefficient was negative, the effect was not statistically significant. Thus, H6 was not supported. These results show that the presence of quality auditors did not provide a significant additional effect on the effectiveness of institutional ownership in improving financial performance.

The findings can be explained through Agency Theory: institutional investors have relatively strong monitoring capacity through share ownership, access to information, and involvement in corporate decision-making. Therefore, the additional supervisory mechanism provided by audit quality did not have a significant effect on the relationship between institutional ownership and financial performance. This lack of moderation may be explained by a substitution effect in governance monitoring. Institutional investors in the sampled energy firms hold a dominant average ownership stake (63.48%). They may already have strong direct monitoring channels, such as specialised analyst teams, direct access to management, and substantial voting power. As shown in the direct path test (H3 supported), institutional ownership independently exerted a significant positive influence on ROA. Consequently, additional monitoring by external Big Four auditors may become redundant, adding little marginal value to financial returns. This outcome reinforces the findings of Azi (2025) and Alhazmi et al. (2024), who concluded that when internal oversight by institutional shareholders is already robust and effective, the moderating impact of external audit assurance becomes statistically insignificant.

CONCLUSION

This study shows that institutional ownership has a significant positive effect on the financial performance (ROA) of energy companies, which is consistent with the view that the strong monitoring capacity of institutional investors reduces agency costs. Conversely, ESG disclosure and board size did not significantly affect financial performance. This suggests that the financial benefits of ESG investments may take longer to materialise. At the same time, board effectiveness may depend on internal coordination and the quality of decision-making rather than on headcount alone. Furthermore, audit quality did not moderate the relationships

of ESG, board size, or institutional ownership with financial performance. High audit quality appears unable to convert upfront ESG compliance costs into short-term profitability, or to substitute for internal board dynamics, and it may be a redundant oversight mechanism given the already dominant institutional monitoring. Overall, the findings suggest that Big Four external auditors in the energy sector function primarily as a reporting compliance mechanism rather than as an operational catalyst for profitability.

This study has several limitations. First, ROA is a short-term accounting measure, so the long-term benefits of ESG may not be captured; future studies could use longer observation periods or market-based measures such as Tobin's Q. Second, audit quality was proxied only by Big Four membership; future research could consider audit fees, auditor tenure, or industry specialisation. Third, the sample covers only energy-sector companies listed on the IDX during 2021–2025 (95 observations), which limits generalisability. In practical terms, the results suggest that investors may place greater weight on the ownership structure of energy-sector companies than on ESG disclosure or board size alone, and that companies and regulators should treat ESG disclosure as a long-term strategy rather than a driver of short-term profitability.

REFERENCES

- Al-Shaer, H., & Zaman, M. (2016). Board gender diversity and sustainability reporting quality. *Journal of Contemporary Accounting & Economics*, 12(3), 210–222.
<https://doi.org/10.1016/j.jcae.2016.09.001>
- Alhazmi, A. H. J., Islam, S., & Prokofieva, M. (2024). The impact of changing external auditors, auditor tenure, and audit firm type on the quality of financial reports on the Saudi Stock Exchange. *Journal of Risk and Financial Management*, 17(9), Article 407.
<https://doi.org/10.3390/jrfm17090407>
- Amylia, H., Kushermanto, A., Priatiningsih, D., & Risqi, I. (2024). *The influence of corporate governance, corporate social responsibility, and information technology investment on the financial performance of Indonesian mining companies*, 1(March), 98–113.
- Anggraini, P. W., & Sari, T. D. R. (2024). Pengaruh environmental social governance (ESG) score terhadap kinerja keuangan perusahaan yang terindeks IDX ESG Leaders tahun 2020–2023 [The effect of Environmental Social Governance (ESG) scores on the financial performance of companies indexed in the IDX ESG Leaders, 2020–2023]. *Journal of Accounting and Finance Management*, 5(5), 975–982.
- Azi, S.; A. (2025). Research Horizon. *Research Horizontal*, 5(2), 97–108.
- Aziizah, E. N., Nurlaela, S., & Titisari, K. H. (2022). Pengaruh good corporate governance, struktur kepemilikan manajerial, kepemilikan institusional, leverage dan ukuran perusahaan terhadap kinerja keuangan [The influence of good corporate governance, managerial ownership structure, institutional ownership, leverage and firm size on financial performance], 18(2), 275–284.
<https://doi.org/10.29264/jinv.v18i2.10508>
- Buallay, A. (2018). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality*, 30(1), 98–115.
<https://doi.org/10.1108/MEQ-12-2017-0149>
- Ernawati, S. B. S. (2021). Pengaruh ukuran perusahaan, kepemilikan institusional, komisaris independen dan leverage terhadap kinerja keuangan (studi empiris pada bank umum syariah yang terdaftar di OJK Indonesia tahun 2015–2019) [The influence of firm size,

- institutional ownership, independent commissioners and leverage on financial performance (an empirical study of Islamic commercial banks registered with OJK Indonesia, 2015–2019)], 19(2), 231–246.
- Fernandez, C., Evandio, D. Y., & Riantono, I. E. (2025). Corporate governance and ESG strategies: The moderating impact of internal audit quality on financial performance in Indonesian companies. *Edelweiss Applied Science and Technology*, 9(5), 685–702.
<https://doi.org/10.55214/25768484.v9i5.6983>
- Fikri, M. (2025). Tertekan pendapatan, laba BYAN jatuh 25% jadi Rp15 T di 2024 [Under revenue pressure, BYAN's profit falls 25% to Rp15 trillion in 2024].
- Firdaus, M. H. (2025). The effect of good corporate governance and company size on financial performance with audit quality as a moderating variable in LQ45 companies. *Journal Research of Social Science, Economics, and Management*, 3(4), 909–922.
- Garcia, A. S., Mendes-da-Silva, W., & Orsato, R. J. (2017). Sensitive industries produce better ESG performance: Evidence from emerging markets. *Journal of Cleaner Production*, 150, 135–147.
<https://doi.org/10.1016/j.jclepro.2017.02.180>
- Hariadi, S., Putri, D. R., & Sugiono, D. (2022). Pengaruh good corporate governance & corporate social responsibility terhadap kinerja keuangan [The influence of GCG and CSR on financial performance].
- Himawan, F. A. (2021). Pengaruh intellectual capital, kepemilikan manajerial, kepemilikan institusional, komisaris independen dan komite audit terhadap kinerja keuangan dengan ukuran perusahaan sebagai variabel pemoderasi [The influence of intellectual capital, managerial ownership, institutional ownership, independent commissioners and the audit committee on financial performance with firm size as a moderating variable] 24(1), 1–21.
- Husnah. (2023). Integrating environmental, social and governance (ESG) disclosure on financial performance of Indonesian mining, 9(3), 763–773.
- Indrawati, A., Ruliana, T., Yudhyani, E., & Nurfitriani, N. (2023). Environmental, social, governance report, and materiality analysis effect on financial and market performance. *Journal of Accounting and Strategic Finance*, 6(1), 71–89.
<https://doi.org/10.33005/jasf.v6i1.392>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
[https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Jucá, M. N., Muren, P. D., Valentinčič, A., & Ichev, R. (2024). The impact of ESG controversies on the financial performance of firms: An analysis of industry and country clusters. *Borsa Istanbul Review*, 24(6), 1305–1315.
<https://doi.org/10.1016/j.bir.2024.08.001>
- Kirimi, P. N. (2024). Effect of banks' ownership structure on financial performance: Evidence from banks in an emerging market. *Measuring Business Excellence*, 28(1), 137–150.
<https://doi.org/10.1108/MBE-04-2023-0052>
- Kyere, M., & Ausloos, M. (2021). Corporate governance and firms' financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), 1871–1885.
<https://doi.org/10.1002/ijfe.1883>
- Laksana, N. B., & Handayani, A. (2022). Pengaruh komisaris independen, kepemilikan manajerial dan komite audit terhadap nilai perusahaan dengan kualitas audit sebagai variabel moderasi (studi empiris pada perusahaan yang terdaftar dalam indeks LQ45 tahun 2016–

- 2020) [The influence of independent commissioners, managerial ownership and the audit committee on firm value with audit quality as a moderating variable (an empirical study of companies listed on the LQ45 index, 2016–2020)], 5(2), 111–129.
- Lutfiana, N. A., & Fitriati, I. R. (2022). *the effect of debt-to-equity ratio, institutional ownership, size of the board of directors, and size of the board of commissioners on return on assets in energy sector companies*, 2(3).
- Murwaningsari, E. (2009). Responsibilities dan corporate financial performance dalam satu continuum, 30–41.
- Natalia, T. (2024). Laba susut, emiten batu bara ADRO, PTBA, ITMG tetap royal bagi dividen [Profits shrink, coal issuers ADRO, PTBA and ITMG remain generous with dividends]. *CNBC Indonesia*.
- Nawangsan, A. T. (2026). The effect of ESG on financial performance of energy sector companies in Indonesia and Malaysia during 2020–2023. *Journal of Contemporary Accounting*, 8(1), 25–42.
<https://doi.org/10.20885/jca.vol8.iss1.art3>
- Nuraini, A., & Cahyadi, I. P. (2025). Influence of good corporate governance, capital structure, and company size on financial performance of oil and gas companies. *Jurnal Ilmiah Akuntansi Kesatuan*, 13(1), 43–52.
<https://doi.org/10.37641/jiakes.v13i1.3109>
- Safitri, W. I., Ardiyani, K., & Ilmiani, A. (2024). Analisis pengaruh keberagaman dewan dan kepemilikan institusional terhadap kinerja keuangan [Analysis of the influence of board diversity and institutional ownership on financial performance], 1, 1–15.
- Santoso, N., Sulistiyowati, R., & Veronica, M. (2025). ESG disclosure and financial performance: The moderating role of firm size in Indonesian banking sector, 10(3), 331–348.
- Sarpong-Danquah, B., Adusei, M., Abdulaziz, M., & Al-Faryan, S. (2023). The role of judicial efficiency in the board size–financial performance nexus: Evidence from microfinance institutions. *Social Sciences & Humanities Open*, 8(1), Article 100584.
<https://doi.org/10.1016/j.ssaho.2023.100584>
- Sarpong-Danquah, B., Oko-Bensa-Agyekum, K., & Opoku, E. (2022). Corporate governance and the performance of manufacturing firms in Ghana: Does ownership structure matter? *Cogent Business & Management*, 9(1), Article 2101323.
<https://doi.org/10.1080/23311975.2022.2101323>
- Sellina, S., Zed, E. Z., & Kartini, T. M. (2025). The influence of good corporate governance on financial performance in sharia banking 2019–2023. *Review: Journal of Multidisciplinary in Social Sciences*, 2(2), 53–67.
<https://doi.org/10.59422/rjmss.v2i02.771>
- Shafira, H., & Astuti, C. D. (2024). ESG disclosure dan dewan komisaris independen terhadap nilai perusahaan dengan kualitas audit sebagai variabel moderasi [ESG disclosure and independent board of commissioners on firm value with audit quality as a moderating variable], 6(April), 664–676.
- Shafitranata, Alvia, L., & Azizah, R. (2026). ESG implementation and its effect on financial performance: Focusing on sustainable financial strategies of green companies in Indonesia. *Environmental Economics*, 17(1), 12–24.
[https://doi.org/10.21511/ee.17\(1\).2026.02](https://doi.org/10.21511/ee.17(1).2026.02)
- Sipayung, T. D., Simanjuntak, A., Goh, T. S., Simanjuntak, G. Y., & Lase, A. I. R. (2024). The influence of foreign ownership and institutional ownership on the company's financial

- performance (Case study of banking companies listed on the Indonesian Stock Exchange), 6(2), 171–184.
<https://doi.org/10.36985/5yhtc768>
- Sitanggang, A. (2021). Pengaruh dewan komisaris independen, komite audit, kepemilikan manajerial dan kepemilikan institusional terhadap kinerja keuangan (studi empiris pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia 2016–2018) [The influence of the independent board of commissioners, audit committee, managerial ownership and institutional ownership on financial performance (an empirical study of banking companies listed on the Indonesia Stock Exchange, 2016–2018)], 7(2), 181–190.
- Sitorus, A. P., Siregar, S., & Nurlaila. (2024). ESG disclosure model and financial performance: The mediating role of leader exemplarity in sustainable organizations. *Riset Akuntansi dan Keuangan Indonesia*, 8(3), 357–374.
<https://doi.org/10.23917/reaksi.v8i3.2932>
- Solikhah, W. H. S. (2022). Pengaruh komite audit, dewan komisaris independen, kepemilikan institusional dan ukuran perusahaan terhadap kinerja keuangan [The influence of the audit committee, independent board of commissioners, institutional ownership and firm size on financial performance].
<https://doi.org/10.37253/jgbmr.v4i1.6693>
- Sumarno, D. C., Andayani, W., & Prihatiningtias, Y. W. (2023). The effect of environmental, social and governance (ESG) assessment on firm value with profitability as a mediating variable. *Asia Pacific Management and Business Application*, 12(1), 55–64.
<https://doi.org/10.21776/ub.apmba.2023.012.01.4>
- Supatmin. (2025).
- Syariva, R., Ilmiani, A., & Mahmudah, D. A. (2025). Pengaruh green banking, spesialisasi kredit, rasio solvabilitas, dan efisiensi operasional terhadap kinerja keuangan [The influence of green banking, credit specialisation, solvency ratio and operational efficiency on financial performance], 2, 1–13.
- Ulvy, Z., & Herianti, E. (2026). Kualitas audit sebagai pemoderasi: Pengaruh pengungkapan ESG terhadap kinerja keuangan perusahaan migas di ASEAN [Audit quality as a moderator: The effect of ESG disclosure on the financial performance of oil and gas companies in ASEAN], 10, 343–358.
- Wardani, I. A., Juanda, A., & Wicaksono, A. P. N. (2025). Structural ownership and ESG disclosure: Unveiling their impact on corporate financial performance. *Journal of Accounting and Investment*, 26(1), 314–334.
<https://doi.org/10.18196/jai.v26i1.24193>
- Wati, R., & Wijayanti, I. O. (2025). Audit quality as a moderation variable in environmental, social and governance on the financial performance of IDX ESG Leaders company. *MARGINAL: Journal of Management, Accounting, General Finance and International Economic Issues*, 4(3), 505–516.
<https://doi.org/10.55047/marginal.v4i3.1689>
- Yendrawati, R., & Kinanti, A. (2024). Corporate social responsibility (CSR) and good corporate governance (GCG) influence on corporate financial performance. *Jurnal Akuntansi dan Auditing Indonesia*, 28(1).