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Investigating the Effect of Disclosure of Sustainability Reports, Leverage, and Company Size on Financial Performance in the Banking Sector

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ABSTRACT

Sustainability's rising importance in banking has prompted greater transparency through sustainability reports. OJK Regulation No. 51/POJK.03/2017 mandates this reporting to strengthen accountability and promote responsible business conduct. This study aims to examine the effect of sustainability report disclosure, leverage, and company size on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX), specifically measured by Return on Assets (ROA), during the 2021-2023 period. A quantitative approach was used, employing secondary data obtained from 19 banks over a three-year period (2021-2023), resulting in 61 sample data points**.** The results indicate that sustainability report disclosure has a positive and significant effect on financial performance, with a coefficient of 0.365 and a significance value of 0.000. Company size also shows a significant positive effect (coefficient of 0.071, p-value of 0.000). However, leverage has no significant effect on financial performance. These findings suggest that transparency in sustainability reporting and firm scale play key roles in enhancing bank profitability, supporting stakeholder-oriented governance in the banking sector. This study reinforces stakeholder theory, demonstrating the value of transparent sustainability practices in enhancing performance.

Keywords: Banking Sector; Company Size; Financial Performance (ROA); Stakeholder Theory; Sustainability Report Disclosure

INTRODUCTION

In recent years, corporate sustainability practices have become a major focus in the global business environment, including within the Indonesian banking sector. Sustainability reports now serve not only as a means of transparency but also as a strategic business tool to enhance reputation and build stakeholder trust. According to the Global Reporting Initiative (GRI, 2023), the number of companies adopting sustainability reporting has increased significantly, including those listed on the Indonesia Stock Exchange (IDX), in response to rising public demand for more socially and environmentally responsible business practices.

The urgency of this research stems from a paradigm shift in how corporate financial performance is assessed, moving beyond traditional financial reports to also incorporate sustainability aspects. Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017 (OJK, 2017), mandates companies to compile and submit sustainability reports to the OJK. With this obligation, companies are expected to enhance transparency regarding the social, environmental, and economic impacts of their operational activities. This regulation aims to strengthen corporate accountability, minimize reputational risk, and promote the adoption of more responsible business practices across various industry sectors (Gita & Prasetio, 2024). As a result, the disclosure of sustainability reports has become a key factor thought to influence financial performance—particularly Return on Assets (ROA)—especially in the banking sector, which plays a vital role in supporting the national economy.

According to Prasetio et al. (2024), Corporate Social Responsibility (CSR) implementation in Indonesia, through a decentralized approach, must consider holistic community empowerment, including economic, social, and infrastructure development aligned with GRI indicators G4-SO1 and EC8. This emphasizes that sustainability reporting is not merely an act of compliance but a long-term strategic effort to maintain and improve corporate performance. Sustainability reports are no longer viewed as supplemental documents; instead, they are vital tools for demonstrating a company's commitment to Environmental, Social, and Governance (ESG) principles. In Indonesia, this movement has gained momentum as awareness continues to grow regarding the importance of transparency and accountability in business. Many banks are now adopting the GRI framework to prepare their sustainability reports. As one of the most widely used global standards, GRI provides comprehensive guidance for companies to systematically and consistently report on their sustainability performance. The adoption of GRI standards by Indonesian banks not only satisfies regulatory and stakeholder expectations but also enhances credibility and public trust in the company's commitment to sustainable development. This trend illustrates how the Indonesian banking sector is beginning to embed sustainability into its core business strategies, in line with global shifts that recognize sustainability reporting as a powerful tool for achieving long-term development goals.

In addition to sustainability aspects, leverage and firm size are also important factors influencing the financial performance of banks. High leverage can increase financial risk and potentially undermine the stability of a firm's profitability, while firm size is often associated with greater access to resources that support operational efficiency and business growth (Brigham & Houston, 2021). Empirical studies present mixed findings regarding the relationship between leverage, firm size, and financial performance, reinforcing the importance of examining these variables in the context of Indonesia's banking sector.

The main problem behind this topic is that there is no uniform conclusion regarding the effect of sustainability report disclosure, leverage, and firm size on financial performance in the banking sector in Indonesia. Some previous studies, such as by Hasanudin and Pramono (2024), found that sustainability reporting has no effect on company value, while ROA has a significant positive effect on the value of companies in the banking sector. This research gap raises the need to conduct further studies by updating data and paying attention to economic dynamics during the 2021-2023 period, which is characterized by post-pandemic recovery.

Sustainability reporting has become a cornerstone of corporate responsibility, driven by rising stakeholder demands for transparency and accountability. Globally, 96% of the top 250 companies now publish sustainability reports, as highlighted by KPMG's 2022 report, underscoring the increasing relevance of ESG factors (Wulansari, 2025). This trend reflects a global shift toward embedding sustainable practices within core business strategies. In Indonesia, this development is evident as the number of companies engaged in sustainability reporting grew from 129 in 2020 to 147 in 2022, as reported by the IDX.

Banks play a vital role in this context, extending beyond traditional financial services to act as key enablers of sustainable development. By financing projects that align with ESG principles, banks help steer economic activity toward sustainability goals. Regulatory mandates and shifting market expectations are the primary forces behind this trend, encouraging banks to adopt sustainable practices and report their progress in alignment with global standards.

The main objective of this article is to analyze the effects of sustainability report disclosure, leverage, and firm size on financial performance, as measured by ROA, in banks listed on the IDX during the 2021–2023 period. Unlike prior studies that often focused on manufacturing or mining sectors, this study specifically examines the banking industry, which plays a pivotal role in supporting sustainable development through financial intermediation aligned with ESG principles. The novelty of this research lies in its integration of recent regulatory mandates from OJK and the use of the GRI G4 index to assess the comprehensiveness of sustainability reports in banks listed on the IDX. The novelty of this research encompasses its focus on recent data during the pandemic rebound, providing updated insights into how sustainability disclosures influence financial outcomes in a sector deeply affected by social and environmental governance issues. It also adds value by confirming that, in the banking sector, sustainability disclosure and firm size positively impact financial performance, while leverage does not significantly affect ROA, thereby offering sector-specific insights that enrich the global understanding of sustainability reporting's role in financial results. This research is expected to contribute theoretically by enriching the academic literature on the relationship between sustainability, financial structure, and corporate performance in the banking sector.

LITERATURE REVIEW

Signaling Theory

Signaling theory originated primarily from the seminal work of Spence (1978) in the context of labor market signaling and was later extended into the fields of corporate finance and accounting to address information asymmetry between managers (insiders) and investors (outsiders). In a corporate setting, a signal refers to an intentional action or disclosure by management intended to convey credible information about the firm's quality, prospects, or intrinsic value—factors that are otherwise unobservable to external stakeholders (Spence, 1978).

Signaling theory explains how companies communicate information to potential investors. It suggests that if a signal presents information perceived as favorable by investors, it will influence the company's stock performance (Maulana & Prasetio, 2025). In the context of financial reporting, particularly sustainability disclosure, signals function as a communicative mechanism through which management shares insights about the company's non-financial practices—such as ESG performance—to reduce uncertainty and mitigate problems related to adverse selection (Moratis, 2018). The strategic aim of such disclosures is to positively shape investor perceptions, thereby potentially enhancing firm value and improving financial performance metrics such as ROA.

Stakeholder Theory

Freeman (1984) states that companies are not only accountable to shareholders but also to a wide range of stakeholders who have an interest in the company's activities, including employees, customers, communities, governments, and the environment.

In the context of sustainability disclosure, stakeholder theory argues that companies disclose sustainability-related information to meet stakeholder expectations, maintain social legitimacy, and enhance their image and reputation, all of which ultimately contribute positively to financial performance, particularly ROA. Stakeholder theory also helps explain how leverage and firm size influence sustainability disclosure decisions: large companies and those with complex capital structures (i.e., high leverage levels) are more likely to disclose extensive information to preserve public trust and ensure financial stability.

Financial Performance (ROA)

Financial performance, according to Kasmir (2016), refers to a company's ability to achieve its established financial objectives, which include effective resource management, operational efficiency, and profit generation. Banking financial performance is a key indicator for assessing the effectiveness of management in managing resources and risks to achieve long-term profitability and stability. In this study, banking financial performance is determined not only by operational efficiency and risk management, but also by the transparency of sustainability reports, leverage, and company size. Oktafia et al. (2021) stated that optimal financial performance has a broad positive impact, both for the government as regulator, investors as capital owners, customers as service users, and management as company operational managers.

Sustainability Report

Sustainability reporting is the process through which a company communicates information regarding the economic, environmental, and social impacts arising from its operational activities. The GRI G4 standard serves as an internationally recognized guideline that is widely adopted by companies in Indonesia as a structured and systematic framework for sustainability reporting (GRI, 2023).

The GRI G4 standard emphasizes principles of transparency, accountability, and stakeholder engagement by offering a comprehensive set of performance indicators that cover economic, environmental, and social dimensions, tailored to the company's sector and size (GRI, 2023). These disclosures include critical topics such as carbon emissions, energy consumption, waste management, social impacts, and corporate governance practices.

H1: Disclosure of sustainability reports has a significant effect on financial performance.

Leverage

Fahmi (2012) states that leverage is a ratio that reflects a company's ability to manage its debt in order to generate profit and fulfill its repayment obligations. This ratio assesses the company's capacity to meet its long-term financial commitments. According to Sartono (2010), leverage refers to the use of assets and funding sources that involve fixed costs (fixed expenses) with the aim of enhancing potential returns for shareholders. However, a high level of leverage increases the risk to business sustainability (Sukma & Prasetio, 2024), which can negatively affect stakeholder perceptions and financial performance outcomes.

H2: Leverage has a significant effect on financial performance.

Company Size

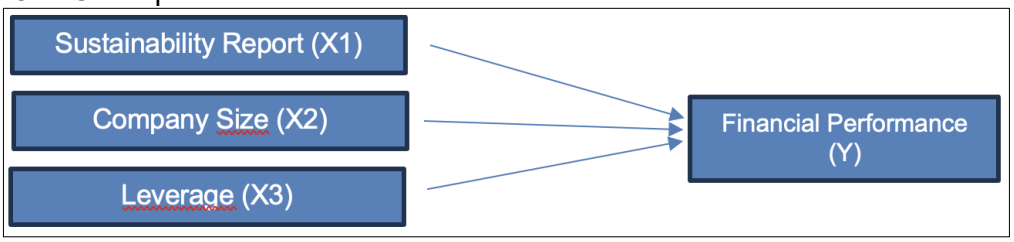
Firm size can be determined based on several indicators, such as total assets, total sales, number of employees, or market capitalization value. This measurement is useful for describing the company's ability to manage resources and face external risks. According to Arfiani (2024), company size is an important determinant of financial performance, where larger companies tend to have greater access to internal and external funding sources and benefit from economies of scale that impact the efficiency of information processing costs.

H3: Company size has a significant effect on financial performance.

Conceptual Framework

An explanation of the relationship between ideas or variables involved in research is referred to as a conceptual framework. It is used to define and describe the relationships among the variables being studied. The primary focus of this research is to examine the effect of the independent variables—Sustainability Reporting, Company Size, and Leverage—on the dependent variable, Financial Performance. Accordingly, Figure 1 illustrates the conceptual framework of this study.

Figure 1. Conceptual Framework



RESEARCH METHOD

This research employs a quantitative approach, selected to examine the influence of the independent variables, sustainability report disclosure, leverage, and company size on the dependent variable, financial performance, within the banking sector listed on the IDX during the 2021–2023 period. The quantitative approach enables the objective and measurable analysis of relationships between variables using statistical techniques (Sugiyono, 2022).

This study utilizes secondary data obtained from the annual reports and sustainability reports of banks listed on the IDX, as well as from the official websites of each bank. The research object consists of the annual and sustainability reports published by Indonesian banks from 2021 to 2023. From a total population of 47 companies, the study successfully obtained a sample of 26 companies over a three-year observation period, resulting in 61 sample data points used for analysis. This sample size was determined

based on the completeness of available data in the form of annual and sustainability reports. The sample selection was carried out using the purposive sampling method, as outlined in Table 1.

Table 1. Research Sample Criteria

No	Sample Selection Criteria	Number of Sample		
		2021	2022	2023
1	Banking companies listed on the IDX	47	47	47
2	Banking Companies that report sustainability reports using neither the POJK index nor the GRI index	(3)	(2)	(2)
3	Banking Companies that report sustainability reports using the POJK index	(18)	(19)	(19)
Number of banking companies that report sustainability reports using the GRI G4 index in 2021-2023		26	26	26
		78		
Outlier data		(17)		
Total number of samples for 3 years		61		

In this study, data analysis was carried out using the IBM Statistics 25 statistical tool with the logistic regression method. Logistic regression was chosen as the analysis model to test the relationship between the independent variable and the dependent variable, which is categorical. The following research model was used to investigate the research hypothesis:

$$\gamma = \alpha + \beta 1\ SRDI + \beta 2\ Size + \beta 3\ LEV + \varepsilon$$

Description:
γ : Financial Performance (ROA)
α : Constant
$\beta 1, \beta 2, \beta 3$: Number of items expected to be disclosed
SRDI : Sustainability Report
Size : Company Size
LEV : Leverage
ε : Error

Sustainability report
Sustainability reports are measured using the Sustainability Report Disclosure Index (SRDI) as an index used to determine a company's compliance with GRI criteria, which include economic, environmental, and social factors (labor practices and decent work, human rights, community, and product responsibility) (Pratiwi et al., 2022). The SRDI is calculated by assigning a score of 1 if disclosed and a score of 0 if not disclosed.

$$SRDI = \frac{K}{N}$$

Description:
SRDI : Sustainability Report Disclosure Index
K : Number of items disclosed
N : Number of items expected to be disclosed

Leverage
The Debt-to-Assets Ratio (DAR) is one of the key indicators used to measure a company's solvency level. This ratio indicates the proportion of a company's assets that

are financed by creditors. A higher DAR signifies a greater reliance on debt financing in the process of generating profits. Additionally, this ratio shows the extent to which total debt contributes to the overall asset base of the company, representing the percentage of funding provided by creditors.

$$DAR = \frac{total\ liabilities}{total\ asset}\ x\ 100\%$$

Company Size

The size of a company reflects the amount of funds needed to support its operational activities (Puspitaningrum & Indriani, 2022). The larger the scale of the company, the greater the funding needed to drive profit growth. In this study, company size is proxied by total assets. Total assets are all the wealth owned by a company to support the smooth running of its operational activities (Magdalena et al., 2017). Company size can be measured by the natural logarithm of total assets (LnTA), which is formulated as follows:

$$Company\ Size = Ln\ (Total\ asset)$$

Financial performance

ROA is a key indicator used to evaluate a company's financial performance, as it reflects how efficiently the company utilizes its assets to generate profits (Rahayu et al., 2021). According to Kasmir (2016), ROA is one of the most crucial indicators in analyzing corporate financial health. According to Khamisah et al. (2020), ROA represents an efficiency indicator that measures the extent to which banking institutions are able to optimize their total assets to generate maximum profitability. By measuring the company's ability to convert its assets into net income, ROA provides insights into operational strengths and weaknesses, thereby supporting strategic decision-making to enhance overall financial performance.

$$ROA = \frac{net\ income}{total\ asset}\ x\ 100\%$$

RESULTS

Descriptive Statistics

Table 2. Statistics Descriptive Result

	N	Minimum	Maximum	Mean	Std. Deviation
SRD	61	31.00	78.00	48.6066	11.32590
Size	61	1377.00	2149.00	1828.4426	174.76122
Leverage	61	33.00	92.00	81.4262	10.36253
ROA	61	-21.00	100.00	13.3279	15.31200
Valid N (listwise)	61				

Note. M = Mean, SD = Standard Deviation.

In Table 2, the minimum value of the results of the descriptive statistics of the Sustainability Report Disclosure variable is 31.00, namely from BRI Bank in 2021 and Maspion Bank in 2023. The maximum value is 78.00, which was achieved by BNI Bank in 2023. Disclosure of sustainability reports has an average greater than the standard deviation (47.6066 > 11.32590), indicating that the data is relatively moderately distributed, the variation or spread of the data is not too extreme, and it can also be interpreted that the data is quite stable and homogeneous.

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Classical Assumption Test

Normality Test

Table 3. One-Sample Kolmogorov-Smirnov Test Results

			Unstandardized Residual
N			61
Normal Parameters[a,b]	Mean		0.0000000
	Std. Deviation		8.99030651
Most Extreme Differences	Absolute		0.165
	Positive		0.165
	Negative		-0.099
Test Statistic			0.165
Asymp. Sig. (2-tailed)			0.000[c]
Monte Carlo Sig. (2-tailed)	Sig.		0.067[d]
	99% Confidence Interval	Lower Bound	0.060
		Upper Bound	0.073
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Based on 10000 sampled tables with starting seed 1314643744.			

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov method with Monte Carlo correction in Table 3, the Monte Carlo Sig. (2-tailed) value of 0.067, which is greater than the significance limit of 0.05. This indicates that there is not enough evidence to reject the null hypothesis (H0), so it can be concluded that the residual data is normally distributed.

Multicollinearity Test

Table 4. Multicollinearity Test Results

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-18.660	21.222		-0.879	0.383		
	SRD (X1)	0.182	0.104	0.211	1.741	0.087	0.984	1.017
	Size (X2)	0.020	0.007	0.355	2.957	0.005	0.998	1.002
	Leverage (X3)	-0.180	0.198	-0.110	-0.907	0.368	0.982	1.019
a. Dependent Variable: ROA (Y)								

Based on the multicollinearity test output in the Collinearity Statistics (Table 4), the Tolerance values for all independent variables are above 0.1, and the VIF (Variance Inflation Factor) values are all below 10, ranging from 1.002 to 1.019. This shows that there is no multicollinearity problem between the independent variables in the regression model, so each variable can be analyzed independently without significantly affecting each other linearly.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.528[a]	0.279	0.241	7.75258	0.279	7.229	3	56	0.000	1.807
a. Predictors: (Constant), LEVERAGE (X3), SIZE (X2), SRD (X1)										
b. Dependent Variable: ROA (Y)										

The Durbin-Watson value of 1.807 in Table 5 indicates that there is no autocorrelation in the regression model. This value is between the normal tolerance range, which is between 1.5 and 2.5, indicating that the residuals of the model are not significantly correlated with each other. Thus, the assumption of no autocorrelation in multiple linear regression has been met.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.008	14.577		0.275	0.784
	SRD (X1)	0.092	0.072	0.166	1.286	0.204
	Size (X2)	-0.006	0.005	-0.162	-1.271	0.209
	Leverage (X3)	0.105	0.136	0.100	0.774	0.442
a. Dependent Variable: ABSRES						

Based on the output of the heteroscedasticity test using the regression method on the absolute value of residuals (ABSRES) in Table 6, it can be seen that the significance value (Sig.) for all independent variables, namely Sustainability Report Disclosure (0.204), Company Size (0.209), and Leverage (0.442), is above the 0.05 threshold. This indicates that no variable significantly affects the absolute residual value, so it can be concluded that this regression equation does not exhibit heteroscedasticity.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-20.466	10.261		-1.995	0.051
	SRD (X1)	0.256	0.124	0.235	2.062	0.044
	Size (X2)	0.028	0.007	0.464	4.086	0.000
	Leverage (X3)	-0.108	0.192	-0.064	-0.561	0.577
a. Dependent Variable: ROA (Y)						

The beta values in the table can be substituted into the equation as follows:

$$Y = -20.466 + 0.256X1 + 0.028X2 + (- 0.108X3) + 10.261$$

Based on the output in the Model Summary (Table 7), the constant value of -20.466 indicates that if all independent variables (Sustainability Report Disclosure, Size, and Leverage) are zero, then the predicted value of ROA is -20.466. The regression coefficient for the Sustainability Report Disclosure variable is 0.256, indicating that each one-unit increase in the Sustainability Report Disclosure variable will increase ROA by 0.256. The significance value (Sig.) of 0.044 indicates that the effect of this variable on ROA is significant at the 5% significance level. Similarly, the Size variable has a coefficient of 0.028 and a significance value of 0.000, which means that its effect on ROA is also very significant. Conversely, the Leverage variable has a negative coefficient of -0.108 and a significance value of 0.577, indicating that the effect of leverage on ROA is insignificant.

The regression results show that sustainability reporting and firm size have a significant effect on financial performance. This means that larger companies that are active in sustainability reporting tend to have higher profitability. Conversely, leverage has no significant effect, so that debt levels do not significantly affect financial performance.

Hypothesis Test

Table 8. Hypothesis Test Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1303.511	3	434.504	7.229	0.000[b]
	Residual	3365.739	56	60.102		
	Total	4669.249	59			
a. Dependent Variable: ROA (Y)						
b. Predictors: (Constant), LEVERAGE (X3), SIZE (X2), SRD (X1)						

The F test results in Table 8 show that the calculated F value is 7,229 with a significance of 0.000. This significance value is much smaller than 0.05, so it can be concluded that the regression model is simultaneously significant. This means that together the independent variables consisting of Leverage (X3), Company Size (X2), and Sustainability Responsibility Disclosure (X1) have a significant effect on the dependent variable, namely, Financial Performance (Y). Thus, these three variables are worth including in the model because they are able to explain variations in the financial performance of banks listed on the IDX in the 2021-2023 period.

Table 9. T-Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-20.466	10.261		-1.995	0.051
	SRD (X1)	0.256	0.124	0.235	2.062	0.044
	Size (X2)	0.028	0.007	0.464	4.086	0.000
	Leverage (X3)	-0.108	0.192	-0.064	-0.561	0.577
a. Dependent Variable: ROA (Y)						

Based on the results presented in Table 9, the hypothesis testing reveals the following: H1 is accepted, as the Sustainability Report Disclosure variable shows a significance value of 0.044 (<0.05) with a t-value of 2.062, indicating a positive and significant effect on financial performance. H2 is rejected, since the Leverage variable has a significance value of 0.577 (>0.05) and a negative t-value of -0.561, meaning leverage does not significantly affect financial performance. Lastly, H3 is accepted, supported by a significance value of 0.000 and a t-value of 4.086 for the Size variable, which confirms a strong and positive influence on ROA. Therefore, the study confirms that only sustainability disclosure and company size significantly affect financial performance in the banking sector during the 2021–2023 period.

DISCUSSION

The Effect of Sustainability Report Disclosure on Financial Performance

The results of the statistical analysis show that the sustainability report disclosure has a t-value of 2.062 with a significance level of 0.044. The significance value below 0.05 indicates that the disclosure of sustainability reports has a positive and significant effect on the financial performance of banks. This means that the more comprehensive a

bank's sustainability report disclosure is, the better its financial performance. This finding aligns with modern banking practices that integrate ESG principles into business strategies, thereby enhancing investor confidence, customer loyalty, and regulatory compliance (Aditya et al., 2021).

According to signaling theory, sustainability report disclosure functions as a positive signal to stakeholders regarding a bank's commitment to social and environmental responsibility (Matuszak & Różańska, 2020). Within this framework, such disclosure reduces information asymmetry and attracts long-term-oriented investors, leading to increased market value and profitability. Meanwhile, stakeholder theory emphasizes that banks must fulfill the expectations of various stakeholders, including regulators, customers, and society. The disclosure of sustainability reports demonstrates that banks are not solely focused on financial returns but also on their social and environmental contributions (Wijaya & Novianto, 2024). This enhances the legitimacy of the company in the eyes of stakeholders, thereby improving earnings stability and access to capital markets (Yurisman et al., 2023). In the banking context, sustainability reporting also serves as a tool to mitigate risks associated with regulatory changes (e.g., OJK's sustainable finance policy) and pressures from international institutions.

This finding is supported by research conducted by Putri and Herawaty (2024) in the energy sector, which shows that sustainability report disclosure has a significantly positive effect on firm value, primarily due to growing investor demand for sustainable business practices. A similar study by Aditya et al. (2021) in the basic industry sector also found that companies with strong ESG disclosures tend to have more stable financial performance.

The Effect of Firm Size on Financial Performance

The results of statistical analysis show that the firm size has a t-value of 4.086 with a significance level of 0.000, indicating that firm size has a positive and significant effect on the financial performance of banks. A significance value below 0.05 leads to the rejection of the null hypothesis (H0), meaning that the larger the company size (for example, as measured by total assets or market capitalization), the better the financial performance.

Based on signaling theory, firm size can serve as a positive signal to investors regarding the company's stability and its capacity to generate profits. Large companies tend to disclose financial and non-financial information (such as sustainability reports) more transparently, which reduces information asymmetry and attracts investor interest. Meanwhile, stakeholder theory emphasizes that larger companies bear greater responsibility to meet stakeholder expectations, including those of regulators, customers, and the broader community. The capacity of large firms to manage resources and risks in line with ESG principles can enhance both reputation and financial performance (Mutmainnah et al., 2020).

This finding aligns with the research of Hirdinis (2019), which found that firm size positively influences firm value, particularly in sectors that require substantial capital and are subject to strict regulatory oversight, such as banking. Similarly, the study by Kusumawati and Rosady (2018) concluded that firm size significantly moderates the relationship between capital structure and profitability.

The Effect of Leverage on Financial Performance

The statistical test results show that the leverage has a t-value of -0.561 with a significance level of 0.577, indicating that leverage has no significant effect on the financial performance of banks in this study. The significance value above 0.05 suggests

that the null hypothesis (H0) is accepted, meaning changes in leverage do not statistically affect financial performance. This could be due to the unique characteristics of the banking sector, where high leverage levels are often part of the business model (e.g., capital ratios under Basel regulations). Although conventional financial theory states that leverage potentially increases the risk of bankruptcy, in the banking context, investors may view leverage as acceptable as long as it is managed prudently and in accordance with regulations, as stated by Annisa et al. (2023) and Prihandono Herliansyah (2025). Additionally, control variables such as firm size or profitability may absorb some of the influence of leverage, thereby reducing its statistical significance.

Based on signaling theory, sustainability report disclosure and leverage can serve as signals to investors. However, the results of this study show that leverage is not a relevant signal for the financial performance of banks. This may be because investors place greater emphasis on positive signals from sustainability disclosures or profitability, while leverage is seen as a risk already internalized in banking operations, according to Annisa et al. (2023). On the other hand, stakeholder theory explains that firms are expected to meet the demands of various stakeholders, including regulators and customers, who prioritize financial stability. A high level of leverage in banking may not be perceived as a threat as long as the firm maintains liquidity and regulatory compliance, thus not adversely affecting performance, as noted by Prihandono and Herliansyah (2025). In other words, while leverage can theoretically signal risk, in practice, banking stakeholders may be more responsive to factors such as sustainability transparency and company size.

Some prior studies present contrasting findings. For example, a study by Aditya et al. (2021) found that leverage positively affects firm value through the utilization of debt for business expansion. Meanwhile, research in the energy sector by Putri and Herawaty (2024) showed that leverage does not significantly affect firm value, aligning with the findings of this study. Furthermore, research by Prihandono and Herliansyah (2025) on non-financial companies listed on the IDX indicates that the effect of sustainability reports is not significant unless accompanied by concrete implementation in company operations. This variation may be attributed to the unique characteristics of the banking sector, which is more tightly bound by strict sustainability regulations (POJK No. 51/2017) compared to other sectors. This finding reinforces the argument that the effectiveness of sustainability reports in enhancing financial performance is highly dependent on sector-specific contexts and the extent of sustainable practice implementation.

CONCLUSION

This research focuses on examining how certain factors affect the financial performance of banks in Indonesia over the period 2021-2023. The results highlight the importance of transparency in sustainability practices and the benefits of being a larger institution in terms of financial performance. The results support the idea that responsible reporting and stewardship of resources can improve stakeholder trust, investor confidence, and overall bank stability. These findings are in line with global trends that emphasize sustainability and transparency as drivers of financial success in the banking sector.

This study shows that banks that disclose more sustainability information tend to have better financial performance. Likewise, firm size has a positive and significant effect on ROA, indicating that larger banks generally achieve higher profitability. Meanwhile, leverage has no significant effect on ROA in this context, implying that the level of debt does not directly affect the profitability of banks in the sample.

Based on the research findings, it is suggested that banking institutions enhance the transparency and quality of their sustainability report disclosures, as these have a significant positive impact on financial performance. Management should also focus on optimizing company size through strategic asset growth, as larger firms tend to demonstrate stronger financial outcomes. Although leverage was not found to be significant in this study, it remains an important factor to monitor in risk management. Theoretically, this study reinforces stakeholder theory by demonstrating the value of transparent sustainability practices in enhancing performance. Practically, it implies that managers should integrate sustainability efforts into their strategic planning, and regulators are encouraged to implement policies that support or mandate sustainability reporting to improve industry-wide accountability and investor confidence.

LIMITATION

The results may not apply to other industry sectors due to different financial and regulatory characteristics. The findings are only relevant in the context of financial markets and regulations in Indonesia during a specific period. In addition, there are variable limitations. This study only uses the dependent variable ROA to measure financial performance, which does not reflect overall financial performance (e.g., ROE, NIM, and EPS are not included). This study only covers 3 years (2021-2023), which may not adequately represent long-term trends, especially in the influence of sustainability on financial performance. Not all companies consistently publish complete sustainability reports, so disclosure scores may be biased.

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No potential contradictions related to interests have been made known by the authors of this article.

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