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THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, GOVERNANCE AND FINANCIAL DISTRESS ON CORPORATE SUSTAINABILITY IN INDONESIA WITH AUDIT QUALITY AS A MODERATION VARIABLE: A STUDY OF MANUFACTURING COMPANIES LISTED IN THE INDONESIA STOCK EXCHANGE DURING PERIOD OF 2013-2022

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ABSTRACT
This research aims to analyze the influence of environmental, social, and governance (ESG), financial distress on Corporate Sustainability and Audit Quality as a moderating variable. Corporate Sustainability is proxied by Bankcrupty Rasio (Zmijewski Scores), DER for Financial distress's proxy and Audit Quality power is proxied by Size of Auditor (Big 4 and Non-big 4). The sample used in this research is manufacturing companies listed on the Indonesia Stock Exchange in the period of 2013-2022. The sampling technique used was purposive sampling so that the samples obtained were 38 manufacturing companies whose annual reports were published on idx.co.id and disclosed environmental, social and governance scores on Bloomberg. The analytical method used in this study is panel data regression and moderated regression analysis (MRA) with E-views 10 programs. The results of this research show that ESG and FD have a positive and significant effect on Corporate Sustainability, before being moderated by audit quality, As well as, The AUD power is able to moderate the effect of ESG and financial distress on Corporate Sustainability.

KEY WORDS
Governance, bankruptcy, financial distress, audit quality.

Corporate sustainability, also known as Corporate Sustainability, is a business and investment strategy that utilizes best business practices to meet and balance the needs of future and current stakeholders. Corporate sustainability is now more important than profit maximization (Kraus et al., 2018). In the triple bottom line (TBL) concept, stakeholder theory says that management pays attention to how powerful stakeholders control the resources needed by the company. Therefore, the TBL concept encourages several stakeholder groups to disclose environmental, social, and economic information. This relates to corporate sustainability. Environment, social and governance are the keys to corporate sustainability in the future (Fuadah et al., 2022).

Companies try to meet the needs of stakeholders and shareholders, by providing the information they need (Donaldson & Preston, 1995). Stakeholders also have the same rights as shareholders to obtain information about the company. Shareholders or company owners are generally assumed to be only interested in financial results or increasing their investment in the company (Mukhtaruddin et al., 2014). Sustainability investment also considers Environmental, Social, and Governance (ESG) aspects when deciding to provide funds to companies or business ventures (Stobierski, 2021).

Much research on corporate sustainability has been carried out in Indonesia covering various fields, such as research on the financial sector (Isnurhadi et al., 2023). Previous research has explained the relationship between ESG disclosure and company performance (Kumar & Firoz, 2022). Companies must pay attention to the environment in order to obtain business continuity (Arrive et al., 2019). The sustainability of the company must be considered in running a company for stakeholder purposes to support sustainable business development and the company do not go bankrupt (Phung & Tung, 2019). Efforts made such as capital loans, offering profit dividends to investors, liquidating company assets up to massive layoffs, and compliance with disclosure of sustainability reports, is a form of solution to maintain the continuity of the company. However, in the end, the company is forced to stop its operations if it is in a state of financial distress. Companies are required to improve their social and environmental performance as well as governance as assessed through ESG ratings by GRI regulations to maintain the company's sustainability.

In reality, there are still problems that arise in Indonesia related to company operational practices that pay little attention to the surrounding environmental, social and governance (ESG) conditions, especially for companies that use natural resources. To ensure sustainability and reduce its environmental impact, the impact of ESG on company performance is very important, and many studies show that companies must prioritize ESG to achieve their goals. All individuals or groups who have an interest in the organization and can be affected by the process of achieving organizational goals are stakeholders (Freeman, 1984). The most influential stakeholders are those who have access to the resources with which to run the business, such as employees, customers, and owners (Hörisch et al., 2014). The Indonesian government also uses ESG data to assess company performance in all sectors including the manufacturing sector. Elkington (1998) also stated that currently the goal of business is not only profit-oriented but also responsibility to people (people) and responsibility to the environment (planet).

In addition to ESG reports, financial distress (FD) is also used to analyze the sustainability of manufacturing industry companies in Indonesia, which is very important for Indonesia's economic growth. Decline in the financial condition of a company prior to liquidation or bankruptcy is known as FD (Piatt & Piatt, 2002). The financial performance of a company can be seen from its financial reports. The inability to fulfill its obligations, especially those that are short-term in nature such as liquidity obligations and also obligations that are included in the solvency category, is an early sign of FD starting. Companies in Indonesia, such as Sekawan Intipratama, PT Sigmagold Inti Perkasa, and PT Telaga Mas Pertiwi, were considered to have no business continuity and were declared bankrupt. Indonesia's largest airline,

PT Industri Sandang Nusantara, which is one of the manufacturing companies in Indonesia, was unsustainable due to the financial crisis. The Decree of the Minister of State-Owned Enterprises as the General Meeting of Shareholders, PT Industri Sandang Nusantara has also stipulated the dissolution of the company. In 2023 Istaka was also declared bankrupt by the Jakarta commercial court based on the Job Creation Law due to the cancellation of the settlement that Istaka was currently undergoing. The cancellation was due to Istaka being unable to fulfill its maturing obligations, namely a debt of Rp. 1.1 trillion to subcontractors regarding the 2011 Sedyatmo Toll Road construction work. Istaka's continued decline in performance caused the government to evaluate and determine the sustainability of this company with a decision to go bankrupt (Kompas. com, 2023).

ESG and FD are very closely related to determining the sustainability of the company, both of which will determine the stakeholders assessing the sustainability of the company to invest in the company. The research results of Khan et al., (2022) found important findings from research in India that sustainability investment has a significant impact on financial performance in the manufacturing sector. To prevent FD conditions in companies, companies need to use external parties in monitoring the company's financial conditions and early identification of FD conditions. The quality of a company's ESG report is also affected by audit quality. The external auditor's duty is to audit the financial statements issued by the company. Audit quality is defined as the possibility with the auditor to find and report violations in his client's accounting system (De Angelo, 1981). The auditor will carry out the audit task and must decide if the company's audit quality produced will be able to determine a company's survival in the future (going concern) and determine the company's sustainability.

Research on ESG, FD on Corporate Sustainability (CS) has been carried out a lot. The significant positive results of ESG in CS were shown by research (Farooq et al, 2021); (Friede et al., 2015) and significant negative results were shown by research (Eliwa et al., 2019). Research by Kim & Jeanice (2022) shows that ESG has an effect on company sustainability. The next factor shows the effect of financial distress and audit quality on company sustainability. Kashmir Research (2021); Hwang & Chang (2020) showed positive results of FD on the sustainability of companies and also research (Meher & Getaneh, 2019) in Ethiopia but other studies showed a negative effect on research (Nigussie, 2021). The effect of audit quality on ESG is predicted to have a significant effect on the sustainability of companies in Vietnam by research (Pham, 2022) and other studies (EL Deeb, 2023). However, Cong & Zahn's research (2019) in Singapore gave results of no effect of audit quality on ESG in determining company sustainability and the same results in research; (El Helaly, 2020). The results of the next study showed significant results of audit quality on FD on CS (Lu & Ma, 2016) and did not show the significance of audit quality on FD by research (Al Zoubi, 2018). The research period is not long enough and the research sample data is limited which is a gap in previous research and there are still variables that play a role but are not included in the research model.

In this study, CS is measured by the Zmijewski Bankruptcy Ratio (X-Score) (ROA, CR and DAR) and content analysis is used in determining the Cut Off value, while the independent variables are proxied by ESG and FD. This study involves a moderating variable, namely audit quality (size of KAP big 4 and non-big 4) which also uses a dummy method on content analysis. Based on the research gap and the determination of the dependent, independent and moderating variables, the researchers then conducted research on the influence of environment, social and governance and financial distress on corporate sustainability in Indonesia with audit quality as a moderating variable.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Farooq et al., (2021) research in Pakistan supports the stakeholder perspective on corporate environmental responsibility, because investing in environmental sustainability not only aligns the interests of shareholders and stakeholders, but also reduces the risk of financial problems. Friede et al.'s research. (2015) show that the positive impact of ESG on corporate sustainability is gradually increasing. Eliwa et al.'s research results (2019) contradicts the two previous studies which show a negative impact of ESG on company sustainability. Stakeholder theory explains that companies should try to maintain good relations with their stakeholders to fulfill their wants and needs, especially those with a direct relationship to the resources the company uses. From the description above, the hypothesis is formulated as follows:

H1: Environment, Social, and Governance have a positive effect on Corporate Sustainability.

Freeman (1984) stated in stakeholder theory that companies should generate benefits for government, society, and the social environment in addition to maximizing profits for investors and owners. This statement is also supported by Donaldson and Preston (1995) who state that stakeholder theory will extend corporate responsibility to all stakeholders, not just to owners. The sustainability report is an important thing that must be included by the company for stakeholders. The report is made with a certain design in order to avoid business activities from environmental and social problems. For stakeholders, predicting the probability of survival of a company in a financial crisis is very important (Hwang & Chang, 2020). This statement is supported by research results in Hwang & Chang's research (2020); Kashmir (2021) and Meher & Getaneh (2019) FD has a positive effect on company sustainability. However, it is different from Nigussie's research (2021) which shows a negative effect of FD on CS. From the description above, the hypothesis is formulated as follows:

H2: Financial Distress positive effect on Corporate Sustainability.

Companies with good ESG performance tend to choose high-quality audits to send positive signals to the outside world and reduce corporate information asymmetry (Wang et al., 2022). Audit quality is considered to be able to influence the relationship between ESG disclosure and Corporate Sustainability. Research El-Deeb et al, (2023); Zahida (2022) which shows a significant negative relationship between ESG and audit quality which determines the sustainability of the company. El Helaly's research (2020) explains the

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insignificant results of ESG testing on audit quality on company sustainability. In carrying out its operational activities, the company must seek support from each of its stakeholders. Communication between stakeholders, in line with the idea of TBL, is an important component of sustainable management. This helps stakeholders make decisions by providing a combined perspective on financial and non-financial issues (Roberts, 1992). Stakeholder theory integrates ESG and audit quality with corporate sustainability. As a response to stakeholder pressure for companies to make ESG disclosure reports, companies need to integrate an audit on the ESG report, where the auditor will thoroughly examine every aspect of the sustainability report. Stakeholders use audit quality standards to verify the company's ESG report and ensure the company's reliability of financing operations. From the description above, the hypothesis is formulated as follows:

H3: Quality Audit moderates the ESG (Environment, Social, and Governance) relationship to Corporate Sustainability.

Lu & Ma's research (2016) shows that external audit quality has a negative relationship with FD. The next results show that companies with high growth indicate that the relationship between audit quality and FD is more significant. Singapore companies also explained FD and firm audit quality have a significant negative relationship (Pham, 2022) and the results of this study in contrast to the results carried out in Istanbul companies by Al Zoubi (2018), which are associated with financial distress and audit quality, there is no significant relationship to the sustainability of the company. Stakeholder theory that a company is not an entity that operates in its own interest but must be able to provide benefits to stakeholders. Financial distress that is predicted through certain items in the annual report that has been audited by KAP big 4 and non-big 4 companies will reflect the company's financial condition so that the company will be able to predict the company's future and the company's sustainability. From the description above, the hypothesis is formulated as follows:

H4: Quality Audits moderate relationships financial distress towards Corporate Sustainability.

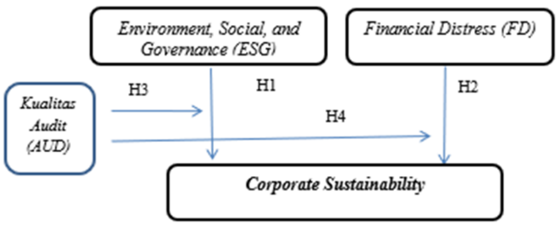

Figure 1 – Conceptual Framework

METHODS OF RESEARCH

The sample in this study is manufacturing companies that have been listed on the Indonesia Stock Exchange (IDX) for the period of 2013-2022. This research focuses on examining the influence of the variables Corporate Sustainability (CS), Environment, Social, and Governance (ESG), Financial Distress (FD) and Audit Quality (AUD). The data used was taken from the company's Sustainability Report and Annual Report based on secondary data on manufacturing companies listed on the Indonesia Stock Exchange by purposive sampling of 38 companies in the 2013-2022 period and then involved the content analysis method which became the research sample for further data processing using Econometric Views application (EVIEWS 10) with the following criteria:

- Manufacturing companies listed on the Indonesia Stock Exchange which can be accessed from the IDX website (www.idx.co.id) in 2013-2022;
- Companies that have assets above 1 trillion (IDR), because the total assets can indicate that the company is working efficiently and optimally and is able to issue more accountable ESG;
- The company suffered no losses during 2013-2022 so that the ESG risk score is more objective in sampling.

Table 1 – Research Variables and Operational Definitions of Variables

Research variable	Operational definition	Scale	Indicator
Corporate Sustainability(Y)	Bankruptcy ratio value of the Zmijewski method, score 1 if the company category is bankrupt, otherwise score 0 Viciwati (2020)	Ratio	The value of the bankruptcy ratio is given a dummy score of 0 for bankrupt companies and 1 for healthy companies. (Content Analysis)
Environment, Social, and Governance(X1)	GRI Standard Environmental, Social, Governance Score (ESG Index) Gustin et al., (2022)	Ratio	The percentage of the number of items that the company issues via ESG on the Bloomberg web with a value in the range of 0 to 100.
Financial Distress(X2)	The debt ratio is used to measure the comparison between total debt and total assets	Ratio	The DER ratio score issued by the company through idx.co.id is in the range of 0 to 100.
Audit Quality (Z)	KAP size is a Public Accountant Office Size that is calculated in a dummy (Rahman, 2021)	Ratio	The value of KAP size is given a dummy score of 1 for Big 4 and 1 for non-big 4. (Content Analysis)

The analytical method used is panel data regression using the E-views 10 program. Where one of the three models in the data panel will be selected, namely, the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. The regression equation model is as follows:

$$CRSit = \alpha + \beta1\ ESGit + \beta2\ FDit + \beta3\ (ESGit\ {*}AUDt) + \beta4\ (FDit\ {*}AUDt) + \varepsilon$$

RESULTS AND DISCUSSION

The following is the result of a statistical descriptive analysis of the research variables using the E-views 10 program:

Table 2 – Results of Descriptive Statistical Analysis of Research Variables

	CS	ESG	FD	AUD
Means	0.194737	0.444247	1.161013	0.423684
Median	0.000000	0.415361	0.915758	0.000000
Maximum	1.000000	2.670180	9.468741	1.000000
Minimum	0.000000	0.000000	0.046314	0.000000
std. Dev.	0.396520	0.276279	1.110642	0.494793
Skewness	1.541741	2.039483	3.292130	0.308882
Kurtosis	3.376965	14.47803	19.52884	1.095408
Jarque-Bera	152.7911	2349,398	5012.120	63.47746
Probability	0.000000	0.000000	0.000000	0.000000
Sum	74.00000	168.8137	441.1848	161.0000
Sum Sq. Dev.	59.58947	28.92918	467.5059	92.78684
Observations	380	380	380	380

Source: Research data output, processed.

Table 3 – Chow Test Results

Effect Test	Statistics	df	Prob.
Cross-section F	19.613309	(37,340)	0.0000
Chi-square cross-sections	434.125082	37	0.0000

Source: E-views data output, 2023

Table 4 – Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-sections	14.917931	4	0.0049

Source: E-views data output, 2023.

It can be concluded that the number of observations in this study were 380 observational data which were obtained from 38 samples of research objects conducted in

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the period 2013 to 2022. The independent variables ESG and FD have higher average values when compared to its standard deviation. This shows that the data has a small distribution so that it indicates that the data is good data.

Based on the Chow Test and Hausman Test, it is known that the probability value is α < 0.05. Thus, the Fixed Effect Model is more appropriate to use than the Random Effect Model or the Common Effect Model.

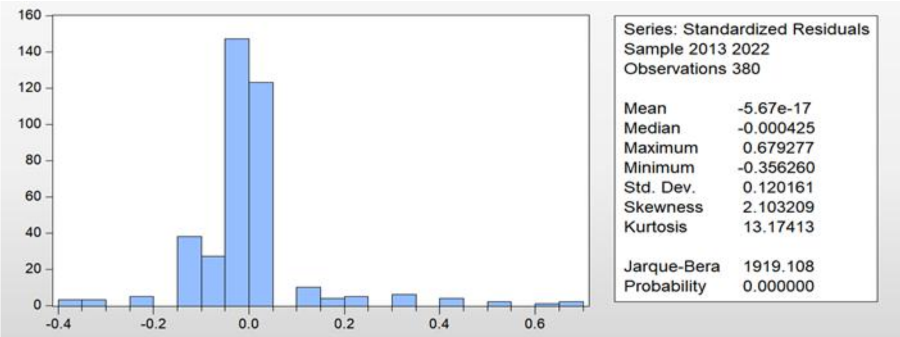

Figure 2 Normality Test Results (Source: Research data output, 2023)

The normal distribution assumption test is only intended for small samples. Large samples can be ignored based on the Central Limit Theorem that for samples that have a large size, especially more than 30 (n> 30), then the data is considered normal (Dielman, 1961).

Table 5 – F Test Results

F-Statistics	10869.75
Prob. (F-Statistic)	0.000000

Source: E-views data output, 2023.

Based on the F test, it is known the probability value of the F-statistic is 0.000which is smaller than 0.05. Thus, the independent variable and moderation together significantly affect the dependent variable.

Table 6 – Test Results

Variables	Coefficient	std. Error	t-Statistics	Prob.
C	0.191649	0.001336	143.3996	0.0000
ESG	0.005048	0.002192	2.302809	0.0219
FD	0.004663	0.001962	2.376453	0.0180
ESG_AUD	-0.005448	0.002209	-2.466692	0.0141
FD_AUD	-0.004775	0.001983	-2.408452	0.0166
R-squared	0.999242	Mean dependent var.		1.549601
Adjusted R-squared	0.999150	SD dependent var.		4.564174
SE of regression	0.127240	Sum squared residue		5.472218
F-statistics	10869.75	Durbin-Watson stat		1.419883
Prob. (F-statistic)	0.000000			

Source: E-views data output, 2023.

In testing the hypothesis that the ESG variable (X1) produces a regression coefficient of 0.005048, a t-statistic of 2.302809 is also obtained with a p-value of 0.0219 which is smaller than the significance level (0.0219 <0.05). Hypothesis 1 which reads "Environment, Social, and Governance have a positive effect on Corporate Sustainability" accepted. The results of the analysis show that there is a positive and significant influence between ESG on Corporate Sustainability.

In testing the hypothesis that the FD variable (X2) produces a regression coefficient of 0.004663, a t-statistic of 2.376453 is also obtained, with a p-value of 0.0180 which is smaller than the significance level (0.0180 <0.05). Hypothesis 2 which reads "Financial distress has a positive effect on Corporate Sustainability." accepted. The results of the analysis show that there is a positive and significant influence between Financial Distress on Corporate Sustainability.

The AUD variable in moderating the extent of ESG disclosure of CS is classified as pure moderation so that Hypothesis 3 in this study is accepted that AUD moderates the extent of ESG disclosure of Corporate Sustainability. The interaction of the moderating variable can strengthen or weaken the effect of the independent variables on the dependent variable. The interaction between ESG and AUD has an effect on CS. This can be seen by the Adjusted R Square value in the first test (not using the moderating variable) of 0.999242. This value is smaller than the Adjusted R Square value in the second test (using the AUD variable as moderation), which is 0.999150.

The results of the regression coefficient of the interaction variable between FD and AUD are -0.004775, also obtained a t-statistic of -2.408452, with a p-value of 0.0166 which is smaller than the significance level (0.0166 <0.05). The AUD variable in moderating financial distress on corporate sustainability is classified as pure moderation so that Hypothesis 4 in this study is accepted.

Table 7 – Determination Coefficient Test Results

R-squared	0.999242
Adjusted R-squared	0.999150

Source: E-views data output, 2023.

Based on table 4.20 above, it is known that the R-Squared value is 0.999242 and the Adjusted R-Squared first panel data regression model is 0.999150. This shows that 99.915% of CS is influenced by FD and AUD while the remaining 0.085% is influenced by other factors.

CONCLUSION

Based on the results of an analysis of the influence of Environment, Social and Governance (ESG), Financial Distress (FD), and Audit Quality (AUD) on Corporate Sustainability in companies on the Indonesia Stock Exchange (IDX) in the manufacturing sector in Indonesia, the following conclusions are drawn:

- The research results indicate that companies that are able to achieve profits have greater access to funding to support quality ESG publications. Based on the perspective of Stakeholder Theory, this is very beneficial for shareholders, creditors, consumers, suppliers, government, society, analysts, and other parties in decision making;
- The positive results of this study indicate that companies with good DER levels provide more voluntary information to creditors, one of which is ESG report information. This supports the Stakeholder Theory regarding increased stakeholder trust indicating satisfaction with the company and the company has submitted sufficiently transparent information in the annual report;
- Audit quality which acts as a moderating variable gives a different effect between Environment, Social and Governance and Financial Distress on Corporate Sustainability. Moderation of audit quality has a significant negative effect when confronted between Environment, Social and Governance and Financial Distress on Corporate Sustainability. The conflicting results before moderation and after moderation by audit quality are interesting things to reveal more clearly. Audit quality moderation revealed that the negative impact was assessed due to the high costs faced by implementing the ESG report which was revealed after the KAP carried out an audit assignment on the company which apparently also affected the cost of debt from the company. This cost relationship is certainly very influential on the

sustainability of the company;

- Based on the value of the company's bankruptcy ratio, there are 4 companies that are predicted to be in a sustainable condition in the last 10 years, namely ASII, CPIN, ICBP & linear UNVR with fairly good ESG and FD values;
- To achieve sustainability, the company must pay attention to three important aspects of the company besides the financial aspects, namely environmental, social and governance aspects. Companies must also focus on balancing profit and responsibility for the environment as reflected in the disclosure of ESG by the company so that it will be easy for the company to achieve its sustainability goals.

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