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THE COMPANY'S REPUTATION MODERATES THE RELATIONSHIP BETWEEN ESG DISCLOSURE, AUDIT QUALITY, POLITICAL CONNECTION, AND FINANCIAL PERFORMANCE

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Abstract

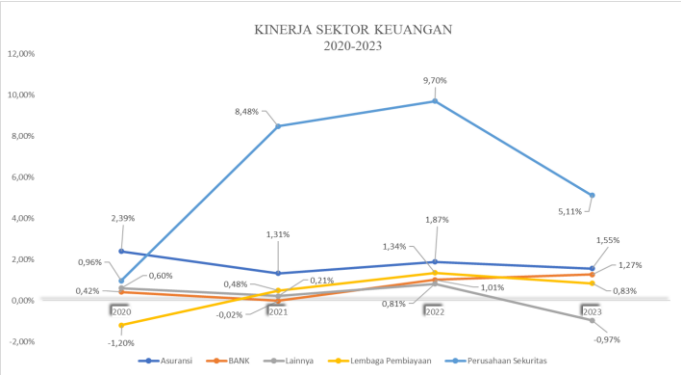
This research aims to analyze the role of corporate reputation as a moderating variable in the relationship between ESG disclosure, audit quality, and political connections on financial performance in companies in the financial sector listed on the Indonesia Stock Exchange from 2020 to 2023. This study employs a quantitative approach with purposive sampling, resulting in a sample of 58 companies over 4 years. The regression analysis results show that ESG disclosure negatively affects ROA, while audit quality has a positive effect. Political connections hurt ROA, indicating potential inefficiencies in companies with political connections. Corporate reputation has been proven to strengthen the positive influences of ESG and political connections on ROA, but it has also weakened the impact of audit quality. Corporate reputation is a significant moderating factor, enhancing the positive effects of ESG and political connections while reducing dependence on audit quality. These findings emphasize the importance of effective ESG implementation and appropriate political connection management strategies in improving company financial performance.

Keywords: ESG, Audit Quality, Political Connections, Corporate Reputation, Financial Performance

INTRODUCTION

Economic growth is a primary indicator for measuring the success of a country's economic development (Nastu, 2022). In Indonesia, economic growth has shown fluctuating developments in recent years. The movement and instability of economic growth are influenced by various factors, reflecting economic responses to government policies, global conditions, and changes in important sectors such as consumption, investment, and exports (Triansyah et al., 2023). Indonesia's economic growth from 2017 to 2019 was relatively stable at around 5% before plummeting to -2.07% in 2020 due to the COVID-19 pandemic. Recovery occurred gradually, with growth rates of 3.70% in 2021, 5.31% in 2022, and 5.05% in 2023. This positive trend reflects the government's success in stabilizing the economy post-pandemic. This recovery reflects the government's efforts to stabilize and enhance economic growth post-pandemic. Economic growth and financial performance are closely related. As measured by independence, effectiveness, and efficiency ratios, financial performance can significantly impact economic growth, capital expenditure, and company value (Runtunuwu, 2023). The financial performance of companies, reflected in return on assets (ROA) as a measure of efficiency, generates profits from total assets and plays a crucial role in supporting global economic growth (Khalifaturofi'ah, 2023).

Figure 1.
ROA Financial Sector



Source: Data processed (2025)

The graph of Return on Assets from 2020 to 2023 shows variations in performance across different financial sectors. The insurance sector experienced stable ROA growth, while the banking sector grew gradually post-pandemic. Financial institutions and securities companies initially saw a decline in ROA in 2021 due to the COVID-19 pandemic but began to recover in 2022 with the improving economy and increasing investment activity. This trend reflects the financial sector's ability to adapt through sustainable business practices that support efficiency and economic stability, as Tudose et al. (2021) emphasised. The financial sector faces environmental threats such as climate change and ecosystem degradation, which can increase operational costs and geopolitical risks (Global Risks Report, 2023). Therefore, integrating sustainability through ESG (Environmental, Social, and Governance) is becoming increasingly important. The implementation of ESG has been shown to enhance stakeholder engagement, strengthen governance, and support green innovation and sustainable business practices (Sailesh & Reddy, 2024; Wu et al., 2024). ESG serves as a holistic assessment of financial performance across three dimensions: environmental, social, and governance.

ESG encompasses various aspects, such as managing environmental impacts, social contributions, and effective corporate governance (Clément et al., 2023). ESG has become an essential element in financial markets and is regarded as a key strategy for improving overall financial performance (Fu & Li, 2023). The principles of ESG benefit society and the environment and provide significant advantages for companies, including profitability (Koundouri et al., 2022). The adoption of ESG reflects a paradigm shift that prioritises social and environmental impact, thus attracting the attention of investors increasingly concerned about sustainability (Mazzioni et al., 2024). Moreover, comprehensive ESG disclosures can improve a company's financial performance, supported by audits that verify the accuracy and transparency of financial reports. In the natural resources sector, implementing ESG principles is essential for managing environmental impacts while balancing economic activities and environmental conservation.

The social dimension of ESG also considers the operational impact of companies on local communities, including well-being and sustainability (Litvinenko et al., 2022). A positive relationship exists between a company's environmental performance and social recognition, which ultimately influences its financial performance (Zhou et al., 2022). Several ESG studies identify challenges related to sustainability. In Western Europe, investments in environmental, social, and governance activities tend to reduce Return on Assets (Zahid et al., 2022). This indicates that significant investments in sustainability can increase operational costs, potentially reducing company profitability. Therefore, implementing ESG requires a balanced strategy to ensure sustainability without compromising financial performance. Environmental reporting significantly negatively impacts ROA (Pawar & Munuswamy, 2023). This aligns with research indicating that higher ESG disclosures negatively affect ROA in energy companies in Malaysia (Wasiuzzaman & Mohammad, 2020). Sustainability Reporting disclosures do not affect a company’s financial performance, as measured by Return on Assets (Triwacananingrum & Silphianie, 2023).

The review handle includes collecting and assessing proof related to data to decide and report the level of compliance between that data and built-up criteria. This handle guarantees that a company's monetary articulations precisely reflect its real condition, taking after pertinent bookkeeping guidelines, and can be relied upon by stakeholders in economic decision-making (Kinasih et al., 2024). If the quality of the audit meets the established criteria, the integrity of financial performance can be achieved. The audit process must be carried out by competent and independent parties (Njagi, 2023). Inspecting could be a standard rule to help reviewers satisfy their proficient duties in examining budgetary explanations. This standard incorporates contemplations of proficient quality, such as competence and autonomy, announcing necessities, and proof (Colette & Lukman, 2024). High audit quality provides transparency and credibility to the market.

Companies audited by large firms like the Big Four tend to have a better reputation compared to those audited by non-Big Four firms (Nkiru & Ifeoma, 2022). The competence and independence of auditors and compliance with generally accepted auditing standards are crucial elements for achieving good audit quality. High audit quality also has the potential to detect deviations in financial statements, thereby supporting the accuracy and integrity of the information presented (Abd et al., 2023). Furthermore, audit quality plays a significant role in effective financial management by enhancing the reliability of financial statements, which ultimately aids strategic decision-making (Kamran et al., 2023). Research by Emalia et al. (2020) indicates that audit quality negatively impacts fraudulent financial reporting; that is,

the better the quality of the audit, the lower the likelihood of financial statement manipulation. This finding aligns with the research results of Revaldi and Simbolon (2023), although it contradicts the study by Nurcahyaningsih and Siddi (2021). Increasing the transparency and reliability of financial statements can significantly strengthen stakeholder trust (Kamran et al., 2023).

Research shows differences in findings related to the factors influencing corporate financial performance. Audit quality does not always affect profitability, while other studies emphasize the importance of auditor expertise in improving the accuracy of financial reports and Return on Assets (Phan et al., 2020; Rahman et al., 2023). High-quality external audits, especially by the Big Four firms, are positively associated with increased transparency and reliability of financial statements (M. M. Rahman et al., 2019). ESG disclosure and political connections contribute to influencing corporate financial performance. Good ESG disclosure enhances the company's reputation and attracts the attention of investors concerned about sustainability. With transparent and accountable financial reports, companies can strengthen stakeholder trust, positively impacting financial performance.

Political connections provide strategic advantages but also pose risks, such as potential conflicts of interest and instability in the political environment, which can negatively affect ROA and the quality of financial reporting (Ammari, 2022; Niazi et al., 2023; Supatmi, 2022; Sudrajat & Uzliawati, 2023). Although political connections can facilitate easier access to favorable policies, they can lead to a tendency for negative financial performance due to weak judicial systems and potential abuse of power (Wati, 2017). A company's reputation strengthens the positive impact of ESG disclosures and audit quality and neutralizes potential adverse effects from political connections. Reputation becomes a key element in building public trust, attracting investors, and maintaining a positive company image, which ultimately supports financial stability and growth. A company's reputation positively influences financial performance (Subramaniam et al., 2020).

REVIEW OF LITERATURE

Freeman introduced the stakeholder theory (1984). According to Werastuti (2023:11), Stakeholder Theory involves management practices and business ethics grounded in moral principles and values within an organization. A business should focus on personal interests and provide benefits and advantages to all stakeholders. This theory serves as a strategic foundation for companies in managing communication with stakeholders, where companies are expected to consider and provide benefits to investors (Khalid & Reza, 2017). The presence of stakeholders significantly influences the policies adopted by companies, ultimately impacting business activities. Companies need to gain support from stakeholders for their business activities to ensure the sustainability of their operations. This can be achieved through disclosing information about company activities, both financial and non-financial aspects, to gain stakeholders' support and interest. Support can be obtained through various methods, such as increased use of products or services, participation in the form of capital or investment, and creating A favourable perception of the company among stakeholders.

Akerlof first proposed the signalling theory in 1970 in his work titled The Market for Lemons. According to Gama (2024:90), this theory explains the efforts made by companies or managers to convey valuable information to investors or other external stakeholders, aiming for a deeper understanding of the company's state. The company's reputation serves

as an additional signal that reinforces stakeholders' perceptions of the quality and credibility of the information disclosed. A good reputation strengthens the positive signals from the disclosure of Environmental, Social, and Governance factors, audit quality, and political connections regarding the The company's economic performance. Disclosing ESG information by a reputable company demonstrates a commitment to sustainability and ethics, enhancing stakeholder trust and customer loyalty and reducing environmental and social risks.

The high quality of audits also signals the reliability of financial reports, further strengthening the company's reputation as an entity with good and ethical governance (Setiawan et al., 2023). In addition, political connections serve as a strategic signal that reflects the company's ability to access beneficial resources or policies. When a company with a good reputation manages these political connections ethically, it can reinforce public trust in its sustainability (Simoni et al., 2020). Thus, the company's reputation acts as a signal enhancer, making ESG disclosures, audit quality, and political connections more effective in influencing the company's financial performance. Signal theory is closely linked to the company's reputation as a moderating factor in the relationship between ESG disclosures, audit quality, and political connections with financial performance. By providing relevant information, such as ESG implementation, companies can convey their commitment to sustainability and good governance to stakeholders.

High audit quality provides evidence of the reliability of the information presented, while political connections signal stability and potential strategic support. A company's reputation reinforces these signals, enhancing the credibility of the information provided and supporting a positive perception among stakeholders regarding the company's financial performance (Batrancea et al., 2022). ROA reflects management efficiency in utilising assets to generate profits, thus illustrating the extent to which a company can optimally manage its resources to achieve financial goals (Subastyan, 2024). ESG comprises three main factors to assess and measure a company or other entity's sustainability and social responsibility performance (Johnson & Cloyd, 2023).

The environmental aspect of ESG includes environmental factors such as the company's carbon footprint, water consumption, and waste management. Companies focusing on environmental aspects strive to reduce environmental impact through sustainable practices and innovations. The social aspect encompasses social factors, including the company's relationship with employees, customers, communities, and other stakeholders. According to Hasibuan (2023:200), audit quality refers to the likelihood of an auditor detecting deviations in an entity's accounting system and reporting them in the audit report. Audit quality has several important criteria, including independence, to maintain that financial reports remain fair and credible. According to Harymawan (2020:4), political connections refer to relationships between one party and another with political identities; parties with political connections tend to have access to knowledge, government policies, and strategies for addressing issues. According to Hananto et al. (2024:59), a company's reputation is the public's assessment of its integrity and performance.

A good reputation can enhance the company's appeal to customers, investors, and business partners. Financial performance can lead to an increase in investor confidence, affecting stock prices, revenue growth driven by customers who trust certain product reputations, cost control influenced by employee competencies stemming from the company's reputation, and other factors such as ease of obtaining capital due to the company's

reputation (Pulino et al., 2022). The influence of ESG disclosures positively impacts financial performance (Khanchel et al., 2023). There is a positive and significant mediating effect of ESG practices on financial performance (Ali & Chouaibi, 2023). A significant positive relationship exists between the overall level of ESG disclosures and the financial performance of companies with return on assets (ROA) (Chung et al., 2023).

The relationship between ESG and financial performance indicates that investing in ESG initiatives improves accounting and market-based financial performance metrics (Chininga et al., 2024). ESG disclosures moderate the connection between ESG performance and a company's financial performance, which is more positively significant for companies with higher levels of ESG disclosure. Thus, ESG disclosures significantly influence financial performance (Jorgji et al., 2024). A positive correlation exists between ESG disclosure scores and a company's financial performance (Kumar & Firoz, 2022).

Research Hypotheses

H1: Environmental, Social, and Governance (ESG) positively impact financial performance.
H2: The quality of the audit has a positive impact on financial performance.
H3: Political connections have a positive effect on financial performance.
H4: The company's reputation strengthens the relationship between ESG and financial performance.
H5: Company reputation strengthens the relationship between audit quality and financial performance.
H6: Company Reputation Strengthens the Relationship Between Political Connections and Financial Performance.

RESEARCH METHOD

This study utilizes a quantitative approach to analyze the financial data of companies in the financial sector listed on the Indonesia Stock Exchange from 2020 to 2023. Return on Assets is used as an indicator of financial performance to assess the efficiency of asset management. It allows the company to identify whether its assets are being managed well. A higher ROA indicates higher profits. The research shows that financial performance is measured by comparing net profit to total assets (Khanchel et al., 2023). The measurement of ESG disclosure can be conducted by referring to the Global Reporting Initiative (GRI) Standards. The GRI Standards have specific modules encompassing GRI-200 Economy, GRI-300 Environment, and GRI-400 Social (Munandar et al., 2021).

The method for calculating ESG disclosure involves comparing the number of indicators reported by a company with the total indicators present in each GRI module for each aspect of ESG. This calculation uses dummy variables, where one is given if a disclosure item is presented and zero if the item is not disclosed. Audit quality can be measured using the size proxy of Audit Firms (KAP). KAP size is measured using a nominal scale with dummy variables, where a value of 1 is assigned to companies audited by Big Four firms. In contrast, 0 is assigned to companies audited by Non-Big Four firms (Shaikh, 2021).

According to Faccio (2010), political connections serve as links between politicians and business elites, and political connections can be identified through various indicators, such as having at least 10% ownership of total voting rights or if an executive has close ties to politicians, ministers, or is a member of the government. Chaarani & Abraham (2022) research measures political connections as a dummy variable. This variable is given a value of 1 if the company meets any of the aforementioned political connection criteria and zero if

it does not. This approach allows standardised analysis to measure the impact of political connections on various aspects of a company's financial performance (Harianto & Haman, 2024). Company reputation is measured based on the number of awards received by the company in one year during the study period (Khanifah et al., 2020).

Table 1.
Variable Measurement

Variable	Definition	Measurement	Contribution
Financial Performance	The ratio of net income to total asset	ROA	Khanchel et al, (2023); Siew-Peng Lee, (2022)
ESG disclosure	comparing the number of indicators reported by a company with the total indicators present in each GRI module	ESG	Imlak SHAIKH, (2022)
Audit Quality	dummy variable, valued at 1 for companies audited by a Big Four accounting firm, while a value of 0 is for those audited by a non-Big Four firm.	AQ	Shaikh, (2021); Mohamed Samy El-Deeb, et al, (2023).
Political Connection	The dummy variable is rated one if it meets one of the criteria for political connection, while a score of 0 indicates that it does not.	PC	Harianto, Sandy (2024); Tarmizi, Ahmad (2022)
Company Reputation	The number of awards received measures the reputation of the company.	CR	Khanifah et al, (2020).

Source: Researcher's data, 2025

Data Analysis. The information utilised in this investigation is auxiliary information sourced from yearly reports, budgetary articulations, and supportability reports of money-related segment companies recorded on the Indonesia Stock Trade between 2020 and 2023. The research fund consists of Panel data that combines time series data and cross-sectional data, allowing for analysis across both periods and multiple entities, referred to as temporal data, and cross-sectional data, referred to as cross-section data. Basuki & Prawoto (2016) state that using panel data has various advantages in observation because it combines panel data with time series and cross-sectional data, offering richer information for analysis, increasing freedom, and yielding more accurate estimates. In addition, by combining these two types of data, panel data can address issues arising from missing variables, ensuring that the analyses conducted are more valid and comprehensive. The panel data regression analysis model employed in this research consists of two model equations as follows:

Model 1

$ROA = \alpha + \beta 1ESG + \beta 2AQ + \beta 3PC + e$

Model 2

$ROA = \alpha + \beta1ESG + \beta2AQ + \beta3PC + \beta1ESG*CR + \beta2AQ*CR + \beta3PC*CR + e$

Information: ROA is Financial Performance; ESG is Environmental, Social and government; AQ is Audit Quality; PC is Political Connection; CR is Corporate Reputation; ESG*CR is the Interaction of ESG with Corporate Reputation; AQ*CR is the Interaction of Audit Quality with Corporate Reputation; PC*CR is the Interaction of Political Connection with Corporate Reputation; α is the Constant; β1, β2, β3 are the Regression Coefficients of each independent variable; e is the Error term (other variables are not specified).

RESULTS AND DISCUSSION

Descriptive statistics describe the characteristics of the data used in the study, which can be analyzed through measures such as the mean, median, minimum, maximum, and standard deviation.

Table 2.
Statistics Descriptive

	ROA	ESG	AQ	PC	CR
Mean	0.011283	0.314912	0.443966	0.443966	18.70259
Median	0.010905	0.309524	0.000000	0.000000	6.000000
Maximum	0.179201	0.904762	1.000000	1.000000	289.0000
Minimum	-0.218667	0.083333	0.000000	0.000000	0.000000
Std. Dev.	0.040781	0.142456	0.497924	0.497924	37.28412

Source: The Processed Secondary Data (2025)

The financial performance measured by ROA (Return On Asset) has a maximum value of 0,179201 at Yulie Sekuritas Indonesia Tbk (YULE) in 2021. A high ROA indicates that the financial company can generate significant profits compared to the total assets owned, signifying efficiency in asset management, such as profitable lending, competitive interest rates, and good risk management. The minimum ROA value of -0,218667 is held by Danasupra Erapacific Tbk (DEFI) in 2022. A low ROA indicates that the company is ineffective in generating profit from its assets, reflecting less than optimal performance. The mean value of 0,011283 signifies that the average asset capacity to generate net profit in the banking companies sampled in this study is 1.12%, with a standard deviation of 0,040781 indicating that the average ROA variable value is relatively small compared to the standard deviation, suggesting that the data is varied.

The ESG variable has an average value of 0,314912 with a maximum value range of 0,904762 achieved by PT Bank Negara Indonesia Tbk (BBNI) in 2023 and a minimum value of 0,083333 held by PT Panin Sekuritas Tbk in 2020. The ESG score results indicate that sustainability practices and performance in the financial sector are still relatively low. The low ESG value suggests that companies have yet to implement optimal sustainability strategies, reflecting limited transparency in disclosing environmental, social, and governance aspects. The AQ variable has a maximum value of 1,000000 and a minimum value of 0,000000. The mean value of 0.443966 shows that the average AQ value is around 44.40%, and the standard deviation is 0,497924.

The PC variable has the same value as AQ due to being a dummy variable. The CR variable has a maximum value of 289 held by PT Bank Central Asia Tbk in 2023 and a minimum value of 0 held by several financial companies like Bank Agris Tbk in 2020. The mean value is 18.70259, and the standard deviation is 37.28412. The low awards received

may reflect a lack of transparency in companies disclosing their achievements, as well as minimal participation in industry competitions, which can potentially affect the reputation and competitiveness of the company in the financial sector.

Feasibility study of the model. In this method, three main models can be used, namely Pooling Regression (Common Effect), Fixed Effect, and Random Effect, to select the best model as follows:

Table 2.
Results of Model Feasibility Testing

Model Feasibility Test	Prob	Result
Uji Chow	0.0000	(FEM) *Uji Fixed Effect Model*
Uji Hausman	0.4286	(REM) *Uji Random Effect*
Uji Lagrangian Multiplier Test (Breusch-Pagan)	0.000	REM) *Uji Random Effect*

Source: The Processed Secondary Data (2025)

The Chow test indicates that the Fixed Effect Model (FEM) is the most appropriate. However, the Hausman Test results indicate the Random Effect Model (REM) as the best model. The discrepancy in results between these two tests necessitates a third test, the Lagrangian Multiplier Test. The Breusch-Pagan Cross-section One-sided statistical test results yielded a value of 0.0000, smaller than 0.05, so H_1 is accepted. Thus, the panel regression estimation model that best fits the empirical data is the Random Effect Model (REM).

Table 3.
MRA Statistical Test Result

Variable	Model 1		Model 2	
	Koefisien	Prob.	Koefisien	Prob.
C	0.020657		0.031125	
ESG	-0.020955	0.0194	-0.056064	0.0000
AQ	0.008254	0.0146	0.009620	0.0042
PC	-0.014468	0.0000	-0.023562	0.0000
ESG_CR	-	-	0.000553	0.0216
AQ_CR	-	-	-0.000510	0.0039
PC_CR	-	-	0.000499	0.0036

Source: Processed data, 2025

Table 3 shows the regression equation from the results of the panel regression analysis that explains the impact of the independent variables Environmental, Social, and Governance, Audit Quality, Political Connection, and the moderating variable Corporate Reputation can be formulated as follows:

Model 1

ROA = 0.020657 - 0.020955*ESG + 0.008254*AQ - 0.014468*PC

Model 2

ROA = 0.031125 - 0.056064*ESG + 0.009620*AQ - 0.023562*PC + 0.000553* ESG_CR - 0.000510*AQ_CR + 0.000499*PC_CR

Discussion

The ESG has a coefficient of -0.020955 with a probability value of 0.0194, less than 0.05. ESG significantly affects financial performance (ROA) with a negative relationship.

An increase in ESG disclosure tends to lower ROA. This can be interpreted as significant expenditures on ESG activities becoming a financial burden in the short term without yielding direct benefits. This leads to the rejection of the first hypothesis that states ESG positively influences financial performance.

These findings relate to Stakeholder Theory, where companies strive to meet the demands of various stakeholders through the implementation of ESG. However, in the financial industry, applying ESG often involves high compliance costs, which can increase operational burdens and pressure profitability. This is consistent with the research by Zahid et al. (2022), which shows that investments in environmental, social, and governance aspects tend to decrease Return on Assets (ROA). Additionally, research by Pawar and Munuswamy (2023) also found that environmental reporting significantly negatively impacts ROA.

Increased ESG disclosure can signal to investors the company's commitment to sustainability. However, if this disclosure is followed by significant cost increases without clear short-term financial benefits, investors may react negatively regarding the company's profitability. Implementing ESG requires a balanced strategy to provide long-term benefits without compromising financial performance. Research findings indicate that the audit quality variable has a positive coefficient of 0.008254 with a probability value of 0.0146, less than 0.05. This indicates that audit quality has a significant positive effect on the company's financial performance. Thus, the second hypothesis stating that audit quality positively affects financial performance is accepted. This finding is consistent with the hypothesis because companies with strong audits can better manage financial risks, thereby increasing profitability, and high-quality audits enhance transparency and investor confidence.

This finding relates to stakeholder theory, where more reliable and transparent financial reports can enhance stakeholder trust, including that of investors, creditors, and regulators. High audit quality helps ensure that the financial information presented by the company is accurate and free from material misstatements, thus reducing uncertainty for stakeholders. Companies can build better stakeholder relationships with increased transparency and accountability, ultimately positively impacting financial performance.

From the perspective of Signaling Theory, high audit quality can serve as a positive signal to the market. Companies audited by high-quality auditors demonstrate a commitment to good governance and integrity in financial reporting. This can increase investor confidence, reduce capital costs, and attract more investment, ultimately contributing to improved profitability and company growth. These findings are consistent with research by Hyarat et al. (2023), Dwitayanti & Armaini (2024), M. M. Rahman et al. (2019), and Angsoyiri (2021), which show that companies with higher audit quality tend to experience increased profitability and growth rates.

The PC variable has a negative coefficient of -0.014468 with a probability value of 0.0000, indicating that political connections significantly negatively impact financial performance. Companies that rely too heavily on political connections tend to experience a decline in financial performance due to inefficient resource allocation or risks associated with policy changes. The third hypothesis, stating that political connections positively affect financial performance, is rejected. This finding contradicts the hypothesis because companies with high political connections are more vulnerable to non-performing credit practices or political influence in decision-making.

Companies with high political connections are more susceptible to practices that are not entirely beneficial for all stakeholders. Bias towards certain political interests can

overlook principles of transparency and accountability, ultimately harming shareholders, employees, and the wider community. Strong political connections may also create non-performing credit practices or business decisions influenced by political interests rather than rational economic considerations.

The company's reliance on political connections can send negative signals to investors and the market. Investors view companies with high political connections as more vulnerable to regulatory uncertainty and potential conflicts of interest. Political environment instability can impact business sustainability, diminish investor trust, and affect profitability and the quality of financial reporting. This finding is consistent with research conducted by Ammari (2022), Niazi et al. (2023), Supatmi (2022), and Sudrajat & Uzliawati (2023), which show that although political connections can provide strategic advantages, the associated risks can adversely impact ROA and the financial transparency of the company.

The research results indicate that the ESG_CR interaction coefficient is 0.000553 with a probability value of 0.0216, which means that a company's reputation significantly strengthens the influence of ESG on ROA. Companies with a high reputation can transform ESG expenditures into strategic assets that enhance market trust, improve public image, and support financial performance. Therefore, the fourth hypothesis, which states that a company's reputation strengthens the relationship between ESG disclosure and corporate performance, is accepted. These findings emphasize that companies are responsible to shareholders and various stakeholders, such as customers, investors, business partners, and the broader community. A good reputation helps companies attract stakeholder interest, increase loyalty, and strengthen business relationships. Additionally, allocating resources for ESG activities enhances the company's sustainability and meets stakeholder expectations, ultimately contributing to improved financial performance.

The disclosure of information regarding ESG achievements provides a positive signal to stakeholders that the company is committed to sustainability and good governance. This disclosure also reassures stakeholders that the company has long-term financial stability and can operate sustainably. With transparency in ESG achievements, investors tend to have greater trust, which can enhance investment opportunities and market support. The results of this study are consistent with previous research, such as that conducted by Kodirjonova and Kim (2023), which shows that an increase in a company's reputation can foster trust and loyalty among stakeholders, thereby positively impacting financial performance. Furthermore, these findings support the studies by Jorgji et al. (2024) and Kumar and Firoz (2022), which indicate that ESG disclosure positively impacts a company's financial performance. Thus, companies that actively manage their reputation and transparently disclose ESG information can enhance stakeholder trust, strengthen business sustainability, and achieve better financial performance in the long run.

The research results indicate that the AQ_CR interaction coefficient is -0.000510 with a probability value of 0.0039, which means that a company's reputation significantly weakens the relationship between audit quality and ROA. These findings suggest that companies with good reputations do not heavily rely on audit quality to enhance credibility, as investor trust in the company is already high. Therefore, the fifth hypothesis, which states that a company's reputation strengthens the relationship between audit quality and financial performance, is rejected. Companies with a good reputation already enjoy high trust from stakeholders, such as investors, customers, and business partners. High audit quality does not significantly impact financial performance, as the company has already gained legitimacy and trust from

its established reputation. Companies with a good reputation can be more flexible in allocating resources without overly relying on audit quality as the primary factor in enhancing credibility.

A strong corporate reputation can be a more dominant signal than audit quality. Investors and stakeholders rely more on the company's track record and market perception than on external audit results. When a company's reputation is already high, improvements in audit quality are no longer a primary factor influencing financial performance. The results of this study align with findings by Emalia et al. (2020), which indicate that audit quality can negatively influence financial performance under certain conditions. This suggests that other factors, such as corporate reputation, can be more dominant in building market trust and determining a company's financial success.

The research results indicate that the interaction coefficient of PC_CR is 0.000499 with a probability value of 0.0036, meaning that corporate reputation significantly strengthens the relationship between political connections and ROA. Companies with a strong reputation can leverage political connections more effectively. Thus, the sixth hypothesis, which states that corporate reputation enhances the impact of political connections on financial performance, is accepted. Companies with a strong reputation are generally trusted more by various stakeholders, including the government, investors, and the public. Trust allows companies to leverage political connections more effectively in obtaining regulatory support or easier access to funding. This indicates that a good reputation not only strengthens the legitimacy of the company in the eyes of stakeholders but also enhances the economic benefits of political relationships.

A strong corporate reputation can send a positive signal to the market that the political connections a company has been strategically used to create added value. Well-managed political connections can increase media attention, reduce financing constraints, and strengthen investor confidence in the company's stability and business prospects. The results of this study are in line with the research by Hu et al. (2024), which shows that political connections can enhance financial performance by increasing media exposure and reducing financing barriers. Additionally, the research by Tarmizi and Brahmana (2022) supports these findings by demonstrating that companies with strong political ties often gain competitive advantages, such as increased profitability and investor confidence. Thus, companies with a high reputation and strong political connections are more likely to optimize their economic potential, positively impacting their financial performance.

CONCLUSION

The research results indicate that ESG disclosure significantly but negatively affects financial performance. An increase in ESG disclosure tends to lower profitability in the short term because the costs incurred for ESG activities can become a financial burden without direct benefits. This is consistent with Stakeholder Theory, where the implementation of ESG requires high investments that can suppress company profitability, especially in the financial sector. Conversely, audit quality has a significant and positive effect on financial performance. High-quality audits enhance transparency, reduce financial risk, and strengthen investor confidence, positively impacting company profitability. These results support Stakeholder Theory and Signaling Theory, which state that reliable financial information can enhance market trust.

Additionally, political connections have a significant but negative impact on financial performance. A company's reliance on political connections can lead to inefficient resource allocation, problematic credit practices, and increased policy risks, ultimately reducing profitability. Investors and the market tend to view companies with high political connections as entities more vulnerable to regulatory uncertainty and conflicts of interest. However, company reputation has been shown to strengthen the influence of ESG disclosure on financial performance. Companies with a strong reputation can transform ESG expenditures into strategic assets that enhance market confidence and support profitability. Conversely, a company's reputation weakens the relationship between audit quality and financial performance because reputable companies do not rely heavily on audits to build market trust. Furthermore, company reputation enhances the relationship between political connections and financial performance. Companies with strong reputations are better able to leverage political connections strategically to increase value-added, obtain regulatory support, and strengthen investor confidence. Overall, the findings of this research emphasize the importance of a balanced strategy in implementing ESG, managing audits, and leveraging political connections. Companies need to manage their reputation well to optimize the benefits of ESG and political connections without sacrificing short-term profitability.

Based on the conclusions, future research is recommended to explore further how companies can optimize the implementation of ESG disclosure to enhance financial benefits, both in the short and long term. Additionally, analyses of specific sectors or industries that are more sensitive to ESG may help to understand the variations in its impact more specifically. Given that company reputation has proven to be an important moderating factor, future research could delve deeper into how reputation is built and maintained and to what extent reputation influences the relationship between ESG and financial performance. Focus may be given to aspects of reputation, such as investor trust and consumer satisfaction.

Further research is needed to understand why audit quality, despite being significant, can hurt financial performance in the short term. Factors such as regulation, company size, and organizational culture can be examined more thoroughly to explain this phenomenon. Political connections also need to be analyzed further, especially regarding their impact on business sustainability and unpredictable regulatory risks. Therefore, companies are advised to reduce reliance on political connections in business decision-making to avoid potential risks affecting operational stability.

Innovation in cost-effective ESG practices that still significantly impact sustainability must be developed. Additionally, companies must ensure that audit quality remains upheld as a form of transparency and accountability to stakeholders, even with a strong reputation. With the right strategy, companies can balance sustainability, good governance, and optimal profitability.

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