

INDONESIAN SAVINGS AND LOAN COOPERATIVES: DETERMINANTS of FINANCIAL STATEMENT QUALITY

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Abstract

This study investigates the growing emphasis on sustainability and ethical business practices by examining the influence of ESG scores, corporate governance, and corporate social responsibility (CSR) on financial statement quality in Indonesian savings and loan cooperatives. In recent years, cooperatives have been increasingly expected to adopt transparent and accountable practices aligned with sustainable development goals. However, the adoption of ESG principles and CSR initiatives, as well as the implementation of robust governance mechanisms, remains inconsistent across the sector. This gap raises concerns about the credibility and reliability of financial reporting within cooperatives, which are vital institutions for financial inclusion and community development. By exploring how these three elements contribute to enhancing financial transparency and stakeholder trust, the study highlights the need for integrated sustainability frameworks tailored to the cooperative context. The findings suggest that adopting ESG, strengthening governance, and implementing meaningful CSR programs can improve the quality of financial reports and promote long-term organizational resilience. These insights are valuable for cooperative leaders and policymakers aiming to strengthen trust, accountability, and sustainability within the cooperative sector.

Keywords: ESG Scores, Corporate Governance, CSR Practices, Financial Statement Quality, Savings and Loan Cooperatives

Abstrak

Penelitian ini mengkaji peningkatan penekanan pada keberlanjutan dan praktik bisnis etis dengan menganalisis pengaruh skor ESG, tata kelola korporasi, dan tanggung jawab sosial korporasi (CSR) terhadap kualitas laporan keuangan di koperasi simpan pinjam Indonesia. Dalam beberapa tahun terakhir, koperasi semakin diharapkan untuk mengadopsi praktik transparan dan akuntabel yang selaras dengan tujuan pembangunan berkelanjutan. Namun, penerapan prinsip ESG dan inisiatif CSR, serta implementasi mekanisme tata kelola yang kuat, masih tidak konsisten di seluruh sektor. Kesenjangan ini menimbulkan kekhawatiran tentang kredibilitas dan keandalan pelaporan keuangan di koperasi, yang merupakan lembaga vital untuk inklusi keuangan dan pengembangan komunitas. Dengan mengeksplorasi bagaimana ketiga elemen ini berkontribusi dalam meningkatkan transparansi keuangan dan kepercayaan pemangku kepentingan, studi ini menyoroti kebutuhan akan kerangka kerja keberlanjutan terintegrasi yang disesuaikan dengan konteks koperasi. Temuan menunjukkan bahwa mengadopsi ESG, memperkuat tata kelola, dan menerapkan program CSR yang bermakna dapat meningkatkan kualitas laporan keuangan dan mempromosikan ketahanan organisasi jangka panjang. Wawasan ini berharga bagi pemimpin koperasi dan pembuat kebijakan yang bertujuan memperkuat kepercayaan, akuntabilitas, dan keberlanjutan di sektor koperasi.

Kata kunci: Skor ESG, Tata Kelola Perusahaan, Praktik CSR, Kualitas Laporan Keuangan, Koperasi Simpan Pinjam

INTRODUCTION

In the recent decade, sustainable development and ethics in business have become a matter of concern for almost all organizations in the world, including cooperatives. The global emphasis on sustainable development and ethical business practices has had a significant impact on operational strategies for organizations in recent times, including that of cooperatives (Dananjaya 2024; Valentinov and Iliopoulos 2025; Zulfiani and Rosyadi 2024). It would appear that the integration of socio-ethical marketing, sustainable sourcing, and ethical governance has become a critical element in terms of long-term success and competitiveness. In socio-ethical marketing, organizations such as EFKO Group demonstrate the effectiveness of this strategy in achieving sustainable development, and improving competitiveness, reputation, and stakeholder trust. The correlation between social investment and revenue growth further emphasizes the urgency of this strategy. Ethics, integrity, and responsibility, in the light of business, form a part of corporate governance itself; ethical conduct develops trust and long-term partnerships, as found by (Babu and Menon 2024; Dewi 2024). For instance, in the energy sector, it is observed that ethical procurement ensures corporate reputation and stakeholder trust, which are important facets of sustainability. However, as (Valentinov and Iliopoulos 2025) note, cooperatives will have to balance cost efficiency with their moral objectives, which requires innovative strategies to harmonize the moral and managerial aspects if they will remain a viable alternative to shareholder capitalism.

The ESG (Environmental, Social, and Governance) criteria, corporate governance, and CSR (Corporate Social Responsibility) practices have emerged as critical components in determining the credibility, transparency, and overall quality of financial reporting (Ferdous, Rana, and Yeboah 2025; Hildagard, Andia Dekrita, and Pati Sanga 2023). In Indonesia, savings and loan cooperatives will find these factors particularly important in view of their role in promoting financial inclusions and supporting SMEs (Atif and Alam 2024; Fujianti, et al 2024; Gavilanes-Carranza et al. 2024; Tania et al 2025).

It also speaks to accountability and the quality of financial statements as part of an organization. The high quality of financial statements represents for stakeholders adequate, relevant, and transparent information upon which informed decisions can be made (Almulhim and Aljughaiman 2023). How ESG considerations and governance frameworks, together with CSR initiatives, are being adopted and integrated into cooperatives is mainly unexplored in an Indonesian context (Choi and Lee 2024; Murdiono, et al 2024). Unlike large enterprises, cooperatives face some unique challenges: limited resources, regulatory uncertainty, and differing stakeholder expectations that may influence their financial reporting processes (Ferdous et al 2025). The increasingly international focus on sustainability and ethics in business emphasizes the need for all organizations, including savings and loan cooperatives, to align their operations to be in concert with the criteria established by ESG and CSR (Fujianti et al 2024; Nurfaidah et al. 2024). In Indonesia, where cooperatives are expected to

be a strong foundation for supporting financial inclusion and empowering SMEs, the quality of financial reporting is a cornerstone of trust and accountability among stakeholders (Ferdous et al 2025). Meanwhile, ESG practices, strong governance frameworks, and CSR initiatives within cooperatives are implemented inconsistently (Fujianti et al 2024; Nurfaidah et al. 2024). This becomes a serious challenge in keeping financial reporting transparent, reliable, and relevant for informed decision-making and sustainable growth (Murdiono et al 2024). The address of these issues is of the essence in ensuring that cooperatives not only meet the expectations of their stakeholders but also contribute effectively to the attainment of Indonesia's sustainable development goals.

The problem statement has brought out several related challenges facing savings and loan cooperatives in Indonesia. While the level of awareness of ESG principles is increasing, their operationalization into frameworks remains minimal, thus limiting efforts toward the improvement of the quality of financial reporting and its alignment with global standards (Pradnyawati et al 2023). Besides, weak corporate governance structures undermine accountability and transparency, leading to inconsistencies and erosion of stakeholder confidence in financial reports (Riswandi and Zulfikri 2023). The inconsistent implementation of CSR initiatives also raises concerns over the social and economic responsibility of cooperatives, thus possibly damaging their reputation and the quality of their financial statements (Kartiko, Indradewi, and Sugianto 2024; Silalahi, Maulana, and Kurnia 2024;

Subaki 2024). Aggregately, the absence of a structured approach to the integration of ESG, corporate governance, and CSR practices affects the veracity, transparency, and reliability of the financial statements, thus threatening stakeholder confidence and the sustainability of cooperatives.

Although a number of previous studies have highlighted the role of Corporate Social Responsibility (CSR) in strengthening the reputation and trust of stakeholders, the focus on the *Environmental, Social, and Governance (ESG)* dimensions is still relatively limited in the context of savings and loan cooperatives in Indonesia. In fact, the application of ESG principles has significant novelty value because it not only emphasizes social responsibility but also integrates ethical governance and environmental risk management into the financial reporting process. This study introduces a new perspective by making ESG scores the main determinant of the quality of cooperative financial reports, which has rarely been tested empirically in member-based financial institutions. Through this approach, this study seeks to fill the gap in the literature and provide a comprehensive understanding of how measurable sustainability practices can improve the accountability and transparency of cooperative financial reporting.

These are the critical issues that need to be addressed in order to improve the credibility and effectiveness of savings and loan cooperatives in Indonesia, so that they will remain resilient and relevant in an increasingly sustainability-focused global economy. This study analyses the influence of ESG scores, corporate governance practices, and CSR activities on the quality of financial statements of savings and loan

cooperatives in Indonesia. By analyses these variables, the study aims to add to the increasing literature on sustainable business practices and their implications for financial accountability. Furthermore, this study will bridge critical gaps in the current knowledge by focusing on a type of organization often bypassed in discussions around ESG and financial statement quality cooperatives.

The objectives of this research are threefold: first, to assess the extent of ESG practices adopted by Indonesian savings and loan cooperatives; second, to assess the role of corporate governance in improving the quality of financial reporting; and lastly, to determine how CSR activities affect the accuracy, transparency, and reliability of the financial statements. While these concepts have been widely studied in corporate and financial institutions, their application in savings and loan cooperatives, especially in the Indonesian context, remains underexplored. Previous studies have mostly focused on ESG or CSR as isolated variables and within large corporations or publicly listed companies. This research is unique in that it simultaneously examines ESG scores, corporate governance practices, and CSR initiatives as integrated factors influencing the quality of financial statements an area seldom addressed in cooperative settings. Moreover, the study offers empirical evidence specific to Indonesian cooperatives, highlighting the sector's challenges in aligning with global sustainability expectations while maintaining financial accountability.

THEORETICAL FRAMEWORK AND HYPOTHESES

The quality of financial statements provides the basis for the information depicted in the financial reports to ensure that it is transparent, relevant, and reliable. In this regard, high-quality statements provide timely and accurate information according to (Hasbullah et al 2023) and (Ojianwuna 2023), which makes it significant in decision-making. Comparability, verifiability, timeliness, and understandability are some characteristics of financial statement quality highlighted by the International Financial Reporting Standards. In cooperatives, for example (Adebanjo and Wisdom 2024; Hersey and Gordon 2021). good financial statement quality builds confidence in the members, investors, and regulatory authorities.

The ESG framework is three-dimensional: environmental, social, and governance. The environmental dimension focuses on the impact an organization has on the environment, in terms of resource efficiency, carbon footprint, and waste management practices. The social dimension refers to how organizations address issues like employment practices, community engagement, and customer well-being. Governance deals with the structures and processes guiding organizational decision-making, including board composition, shareholder rights, and transparency. Research (Mohd Zain et al. 2024; S. Wang 2024) shows that organizations with higher ESG scores often show improved financial performance and reporting quality, as ESG practices enhance accountability and risk mitigation

Corporate governance encompasses the mechanisms, policies, and processes that ensure effective management and oversight of an organization, with key elements including board independence, internal controls, and stakeholder engagement (Hormozi 2024; Hossain et al. 2018). Strong governance frameworks are linked to improved financial reporting quality by promoting transparency and reducing information asymmetry (Bushra et al 2024). In savings and loan cooperatives, though, it is usually less formal compared to that of a corporation; thus, this is more challenging regarding accountability and reporting. Studies show that those cooperatives with more solid mechanisms for governance achieve higher performances in finance and generate members' trust (Bushra Hamid Hassan 2024; Hossain et al. 2018; Prameswari et al. 2023).

Corporate Social Responsibility (CSR) involves voluntary actions by organizations to address social and environmental concerns, including community development programs, ethical labor practices, and sustainability initiatives (Lukman et al 2020; Sari et al. 2020). These practices are crucial for building organizational reputation and enhancing financial reporting quality by fostering transparency and stakeholder trust (Benito et al 2023; Liang and Renneboog 2020). Empirical studies (Benito et al 2023; Liang and Renneboog 2020; Sari et al. 2020), indicate that organizations actively engaged in CSR produce more reliable and accurate financial reports, reflecting a commitment to ethical operations. However, the role that CSR plays in financial reporting within

the cooperative sector has not been well explored even in developing economies like Indonesia.

While there is already literature establishing the importance of ESG, corporate governance, and CSR in improving financial performance and quality of reporting, little attention has been given to these aspects within the cooperative sector. The present study contributes to the literature by analyses the collective impact of these aspects on the quality of financial statements in Indonesian savings and loan cooperatives and thus provides useful information to policymakers, leaders of cooperatives, and researchers.

Addressing this gap, the study gives actionable recommendations on ways in which financial reporting practices could be improved in enhancing cooperatives' sustainability and credibility in Indonesia.

This research is predicated on stakeholder and agency theories. According to the theory of stakeholders, (Dogru et al. 2025) proposed, the needs of all its stakeholders-members, employees, and the community must be considered. ESG and CSR practices are also consistent with the expectations of various stakeholders, given their promotion of greater transparency and ethical conduct. Meanwhile, agency theory highlights potential conflicts of interest between managers and stakeholders (Davis et al. 2021), emphasizing the role of effective corporate governance in mitigating these conflicts to ensure financial reports are accurate and unbiased.

ESG represents the set of criteria based on which the sustainability and ethical impact of an organization's operations are judged. Research studies (Fujianti et al 2024; Juthi et al. 2024;

Mohd Zain et al. 2024) suggest that higher ESG scores, which reflect better ESG practices, are associated with improved financial reporting quality since organizations adhering to ESG practices are likely to be more transparent and concerned with risk management and ethical standards. The application of the principles of ESG within a savings and loan cooperative, for instance, should thus improve the level of accountability among stakeholders, trustworthiness, and the veracity and reliability of financial statements.

H1: ESG scores have a positive and significant impact on the financial statement quality of Indonesian savings and loan cooperatives.

Mechanisms of corporate governance, such as board independence, internal controls, and stakeholder monitoring, have been considered some of the drivers of transparency in financial reporting and mitigation of information asymmetry (Martens et al 2023; X. Wang et al 2023). Strong governance frameworks also hamper earnings management and practices that impair the quality of financial reporting (Awan, Bhatti, and Razaq 2015; Bushra Hamid Hassan 2024; Efunniyi et al. 2024). In the case of cooperatives, for example, good governance can sort out specific problems of member representation and accountability, hence presenting better-quality financial statements.

H2: Corporate governance has a positive and significant impact on the financial statement quality of Indonesian savings and loan cooperatives.

Corporate Social Responsibility (CSR) is a business model that reflects an organization's

commitment to social and environmental sustainability (Mohiuddin 2017). The studies (Xie and Lau 2023) demonstrate that CSR practices improve an organization's reputation and engender stakeholders' trust, which may translate into more transparent and reliable financial reporting. In savings and loan cooperatives, CSR activities denote ethical conduct and accountability, enhancing the credibility and perceived quality of their financial statements.

H3: CSR practices have a positive and significant impact on the quality of financial statements of Indonesian savings and loan cooperatives

RESEARCH METHODS

The quantitative research design aligned with (Creswell and Creswell 2017), for the study examines the relationships among ESG scores, corporate governance, and CSR practices concerning the quality of financial statements. This research is designed using a cross-sectional survey to reduce problems with consistency and reliability issues of data. Hypotheses will be tested to investigate whether these relationships are significantly relevant.

A total of **80 savings and loan cooperatives** were selected as the study sample to ensure proportional representation across Indonesia's diverse regional and operational contexts. Although the overall number of cooperatives nationwide is large, the sample of 80 was determined based on the principle of representativeness and statistical adequacy for multiple regression analysis (Creswell and Creswell 2017). The sampling covered

cooperatives from Java, Sumatra, Kalimantan, Sulawesi, Bali, Nusa Tenggara, Papua, and Maluku to reflect geographic diversity, variations in membership size, and organizational maturity. This number also aligns with previous empirical studies in the cooperative and financial reporting domains (Murdiono et al 2024; Pradnyawati et al 2023), which used comparable sample ranges to achieve sufficient statistical power while maintaining data reliability. Therefore, the 80-sample configuration is considered both methodologically sound and nationally representative for analyzing ESG, governance, and CSR dimensions in Indonesian savings and loan cooperatives.

The target population in this study consists of savings and loan cooperatives operating in Indonesia. The sampling technique used is purposive sampling, where the selection of cooperatives is based on specific criteria such as active operation, availability of published financial statements, and involvement in sustainability initiatives. A sample size of 80 cooperatives is selected to ensure a strong dataset for analysis. The sample size, although small, is adequate in light of statistical guidelines regarding regression analysis, and the representation varies across regions and operational scales.

The survey data collection is made through the use of structured questionnaires administered to key stakeholders within the selected cooperatives, including the managers, accountants, and board members. Such questionnaires were designed to perceive ESG issues, corporate governance practices, CSR activities, and financial statement quality.

The items in this questionnaire were rated on a Likert scale ranging from 1-5, where 1 represents strong disagreement and 5 represents strong agreement. This allows a quantitative rating of qualitative perception and allows statistical analysis of the same.

The measurement of the variables in this study is based on established constructs from the previous literature. ESG scores will be measured through items adopted from (Benito et al 2023; Hartikasari et al. 2024) that assess the environmental, social, and governance practices of cooperatives. Corporate governance is measured by items taken from (Huralikoppi 2024; Serino et al 2024), with a focus on board structure, internal controls, and transparency in decision-making. CSR practices are assessed through items adapted, which deal with social and environmental responsibility initiatives undertaken by cooperatives. Lastly, the financial statement quality is measured by attributes such as accuracy, transparency, relevance, and reliability, as have been outlined by (Serino et al 2024).

SPSS, version 26, is utilized to analyses data for testing hypotheses and coming up with meaningful insights. Descriptive statistics are performed at the beginning to summarize data and have an overview of the variables. Reliability was assessed for internal consistency using Cronbach's alpha, and factor analysis for construct validity (Ghozali 2018). Normality tests, including tests for heteroscedasticity and multicollinearity, were performed as a pre-requisite for performing regression analysis (Ghozali 2018). Next, multiple regression is used to analyses the effect of ESG scores, corporate

governance, and CSR practices on financial statement quality. Finally, statistical testing of the hypotheses is carried out through the assessment of the significance of the p-value (< 0.05) and the standardized coefficients measuring the strength of association between variables.

RESULTS AND DISCUSSION

The descriptive analysis provides an overview of the variables examined in this study, including ESG scores, corporate governance, CSR practices, and financial statement quality. The results, show relatively high mean values across all variables: ESG scores (mean = 4.12), corporate governance (4.05), CSR practices (3.98), and financial statement quality (4.08), with standard deviations ranging from 0.45 to 0.52. These findings indicate that the sampled cooperatives demonstrate relatively strong implementation of ESG principles, sound

governance structures, and active CSR engagement, which are accompanied by good-quality financial reporting.

The demographic characteristics of the respondents offer an essential context for interpreting the data in this study, which includes 80 savings and loan cooperatives in Indonesia. Respondents include managers, accountants, and board members with comprehensive perspectives on governance, operations, and financial reporting. The geographic distribution of the cooperatives spans diverse operational regions across urban and rural areas. Furthermore, the membership size depicted the scale of operations for the cooperatives, while operational age underlined their experience in financial management and governance practices. The educational qualifications of the respondents underlined their capacity to understand and implement governance and ESG/CSR practices.

Table 1. Demographic Sample

Region	N (80)	Percentage
Java	30	37.5
Sumatra	20	25.0
Kalimantan	10	12.5
Sulawesi	10	12.5
Bali and Nusa Tenggara	5	6.25
Papua and Maluku	5	6.25
Total	80	100.0
Role	N (80)	Percentage
Manager	40	50.0
Accountant	25	31.25
Board Member	15	18.75
Total	80	100.0
Membership Range	N (80)	Percentage
Less than 500	20	25.0
500–1,000	30	37.5
1,000–5,000	20	25.0
More than 5,000	10	12.5
Total	80	100.0
Age Range	N (80)	Percentage

Less than 5 years	15	18.75
5–10 years	30	37.5
11–20 years	20	25.0
More than 20 years	15	18.75
Total	80	100.0
Education Level	N (80)	Percentage
High School	10	12.5
Diploma	20	25.0
Bachelor's Degree	40	50.0
Master's Degree	10	12.5
Total	80	100.0

Sumber: Hasil Pengolahan Data

Java accounts for the largest share of cooperatives (37.5%), reflecting its economic significance and higher concentration of such organizations. Managers comprise the majority of respondents (50%), overseeing overall operations, followed by accountants (31.25%) responsible for financial reporting. Most cooperatives have a membership size between 500 and 1,000 (37.5%), while a smaller segment (12.5%) serves over 5,000 members. Regarding operational age, cooperatives that have been in operation for 5–10 years constitute the highest number (37.5%), followed by those having operated for 11–20 years (25%). On the level of respondents, the majority are holders of a bachelor's degree at 50%, followed by diploma holders at 25%, reflecting their preparedness for responsibilities in cooperative management and financial reporting.

To ensure that the research instruments accurately and consistently measured the intended variables namely ESG scores, corporate governance, CSR practices, and financial statement quality a series of validity and reliability tests were conducted. Validity was assessed based on the significance value, where all items showed p-values below 0.05,

indicating that each item is statistically valid. Reliability was evaluated using Cronbach's Alpha, with all constructs exceeding the acceptable threshold of 0.7, signifying strong internal consistency. Specifically, ESG scores had a Cronbach's Alpha of 0.824, corporate governance 0.852, CSR practices 0.800, and financial statement quality the highest at 0.884, reflecting excellent reliability. These results confirm that the measurement items used in the questionnaire are both valid and reliable in capturing the dimensions relevant to the study. Multiple regression analysis was conducted to examine the relationship between independent variables, namely ESG Scores, Corporate Governance, and CSR Practices, on the dependent variable, Financial Statement Quality.

The coefficients table displays the regression coefficients (β), t-values, and significance levels of each independent variable.

Table 2. Coefficients

Variable	Unstandardized Coefficient	Standardized Coefficient	t-Value	Sig. (p-Value)
(Constant)	0.512	-	2.63	0.010
Variable	Unstandardized Coefficient	Standardized Coefficient	t-Value	Sig. (p-Value)
ESG Scores	0.341	0.355	4.12	< 0.001
Corporate Governance	0.419	0.413	5.08	< 0.001
CSR Practices	0.287	0.297	3.76	< 0.001

The regression model explicating the Financial Statement Quality is given as: Financial Statement Quality = 0.512 + 0.341 × ESG Score + 0.419 × Corporate Governance + 0.287 × CSR Practices. From the interpretation, the ESG Score ($\beta=0.355$, $p<0.001$) indicates that for every one-unit increase in the ESG Score, the Financial Statement Quality increases by 0.355 standard deviations, keeping other variables constant. Corporate Governance

($\beta=0.413$, $p<0.001$) provides the strongest influence on Financial Statement Quality compared to other predictors. CSR practices ($\beta=0.297$, $p<0.001$) also contribute significantly to Financial Statement Quality, although the impact is smaller than ESG Score and Corporate Governance. The model summary gives an overview of the explanatory power of the regression model

Table 3. Model Summary

Model	R ²	Adjusted	Std. Error of the Estimate
Regression Model	0.720	0.709	0.282

The R² value of 0.720 shows that 72% of the variation in Financial Statement Quality can be explained by the independent variables, namely ESG Score, Corporate Governance, and CSR Practices. The value of Adjusted R² was

0.709, which confirms the strength of this model even after adjusting for the number of predictors analyses. The ANOVA test assesses the overall significance of the regression mode

Table 4. F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.452	3	6.151	77.23	< 0.001
Residual	7.148	76	0.094		
Total	25.600	79			

The F value calculated from the data is 77.23, with a $p<0.001$, therefore indicating that

the regression model was significant in explaining the variance of the Quality of

Financial Statements because independent variables in the model would make a relevant and meaningful contribution to the dependent variable.

H1: ESG scores have a positive and significant impact on the financial statement quality of Indonesian savings and loan cooperatives.

The findings of this study reveal that ESG scores significantly and positively affect financial statement quality, aligning with the regression results which showed a standardized coefficient of 0.355 ($p < 0.001$). This supports the idea that cooperatives which integrate strong environmental, social, and governance practices are more likely to produce transparent, reliable, and relevant financial reports. The novelty of this research lies in applying the ESG framework within the cooperative sector an organizational type often excluded from ESG-focused financial studies. Most prior research, such as (Fujianti et al 2024; Mohd Zain et al. 2024), and (Juthi et al. 2024), examined ESG's impact on financial performance or risk in listed corporations. Meanwhile, (Choi and Lee 2024) emphasized ESG's effect on comparability and market valuation, not financial reporting integrity in cooperatives. This study fills that gap by directly associating ESG practices with the financial statement quality in the context of member based organizations like savings and loan cooperatives. It also advances the conversation initiated by (Eliza 2024) in investor expectations by providing evidence from agrassroots, community-focused financial institution. As such, this study not only reinforces existing theoretical models but also

contributes new empirical insight into ESG applications in the cooperative sector of emerging economies.

H2: Corporate governance has a positive and significant impact on the financial statement quality of Indonesian savings and loan cooperatives.

Corporate governance emerged as the most influential variable in this study, with the highest standardized coefficient of 0.413 ($p < 0.001$), emphasizing its critical role in enhancing financial statement quality. This reinforces agency theory, which argues that sound governance mechanisms reduce information asymmetry and mitigate conflicts of interest between stakeholders and management. While the importance of governance in corporations has been well documented see (Bushra et al 2024; Concari et al. 2023; Efunniyi et al. 2024; Hormozi 2024) this research is novel in highlighting how governance elements such as board independence, internal monitoring, and member participation function within cooperative structures. Unlike listed firms with standardized governance codes, Indonesian cooperatives face governance challenges related to member heterogeneity, lack of professional boards, and informal internal controls. This study demonstrates that even in such settings, structured governance practices can substantially elevate reporting standards. Compared to (Pradnyawati et al 2023), who focused on governance and financial performance, this study goes further by showing direct empirical evidence linking governance quality to report reliability and

timeliness. Thus, this research expands the contextual application of corporate governance theory into the cooperative finance domain and provides actionable insights for cooperative leaders and regulators.

H3: CSR practices have a positive and significant impact on the quality of financial statements of Indonesian savings and loan cooperatives.

The analysis showed that CSR practices significantly influence financial statement quality, with a standardized coefficient of 0.297 ($p < 0.001$). This indicates that socially responsible cooperatives not only strengthen their public image but also enhance the clarity and credibility of their reporting practices. This finding aligns with and extends studies such as (Benito et al 2023; Cherian et al. 2019; Liang and Renneboog 2020; Lukman et al 2020; Xie and Lau 2023), which discuss how CSR activities build organizational reputation and foster stakeholder trust. However, those studies largely focus on corporations or publicly accountable entities, whereas this research confirms that the CSR-financial reporting quality relationship is equally relevant in the cooperative sector. Furthermore, it is one of the few to measure this influence in a systematic and statistically validated manner within Indonesian cooperatives. The CSR variables in this study not only captured external community engagements but also the involvement of cooperative members, aligning CSR with internal governance and stakeholder theory. This perspective contributes a unique lens not present in earlier studies and validates the assertion by (Lukito and Oktaviani 2022)

that ethical alignment in CSR is critical to information integrity. Thus, this research highlights a novel convergence between ethical commitment and financial transparency in member-driven institutions.

CONCLUSION

This study concludes that ESG scores, corporate governance, and CSR practices significantly influence the quality of financial statements in Indonesian savings and loan cooperatives. The integration of environmental and social considerations in operational strategies improves transparency and stakeholder trust, while strong governance mechanisms such as independent boards and effective oversight enhance financial accountability. Likewise, active engagement in CSR initiatives fosters credibility and improves the public perception of reporting reliability. These three factors collectively account for a substantial portion of the variance in financial statement quality, demonstrating the importance of adopting a holistic, sustainability-driven governance model. The study extends previous literature by focusing on cooperatives a sector often overlooked in ESG and CSR research and provides empirical support for stakeholder and agency theories by highlighting the role of ethical alignment and internal controls in promoting financial transparency. Despite its contributions, the study has limitations, including its cross-sectional design and limited sample coverage. Future research should adopt longitudinal approaches, broaden the sample scope, and consider other

relevant variables such as technological integration and regulatory compliance. In practical terms, the findings underscore the need for cooperative leaders and policymakers to strengthen governance frameworks, institutionalize ESG and CSR practices, and build capacity to improve the overall quality of financial reporting and ensure long-term sustainability.

Collectively, the regression model in this study explains 72% of the variance in financial statement quality, which is both statistically robust and practically meaningful. This integrated model combining ESG, governance, and CSR is rare in existing literature, where most studies examine these factors in isolation. By adopting a holistic perspective, this research not only validates stakeholder theory (Dogru et al. 2025) and agency theory (Davis et al. 2021) but also positions cooperatives as viable and accountable institutions in the broader sustainability discourse. Previous studies such as those by (Ferdous et al 2025; Fujianti et al 2024) highlighted inconsistencies in sustainability and reporting practices, but none quantified the collective impact of ESG, governance, and CSR on financial statement quality with the precision and context provided here.

This study's novelty also lies in focusing on Indonesian savings and loan cooperatives a sector often overlooked in empirical sustainability research despite its vital role in financial inclusion and SME empowerment. The research expands the discourse on sustainable reporting by including cooperative

dynamics and offers actionable recommendations tailored to grassroots finance organizations, which have unique stakeholder structures and governance models.

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