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POLITICAL CONNECTIONS AND SUSTAINABILITY DISCLOSURE IN THE ENERGY SECTOR: THE MODERATING ROLE OF INDEPENDENT COMISSIONERS

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Abstract

This study empirically examines the relationship between political connections and sustainability report disclosure among Indonesia listed energy companies using agency theory as the analytical lens. Political connections are measured at the board of directors and board of commissioners level reflecting Indonesia's two-tier board system, using dummy and proportional variables. The sample consists of 233 firm-year observations of energy companies listed on the Indonesia Stock Exchange from 2021 to 2024. Results show that the mere presence of politically connected directors has no significant effect on disclosure, while the proportion of politically connected directors is negatively and significantly associated with it. Both the presence and proportion of politically connected commissioners show a significant negative association with disclosure. These findings suggest that sustainability disclosure declines as political connections become more dominant, especially within the board of commissioners. Further analysis reveals that independent commissioners weaken this negative effect, though the moderating role is significant for directors only under the proportional measure, while remaining consistent for commissioners.

Keywords: Political connection, Sustainability report, Two-tier board system, Sustainability disclosure, Independent commissioner

INTRODUCTION

Climate change poses a global challenge that demands collective resolution. A total of 195 countries, including Indonesia have signed the Paris Agreement, committing to limit the increase in global average temperature to a maximum of 2°C (United Nations, 2015). In line with this commitment, companies have continued to increase their sustainability disclosure practices. By 2022, approximately 96% of G250 companies had adopted sustainability disclosure (KPMG, 2022). In Indonesia, 94% of companies have published sustainability disclosure (IDX, 2025).

The Financial Services Authority (OJK), through OJK regulations number 51/POJK.03/2017 has required all issuers and banks to publish sustainability disclosure to the public (Regulation of the Financial Services Authority Number 51/POJK.03/2017, 2017). Form and content issuer that must include are further detailed in Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 16/SEOJK.04/2021 (Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 16/SEOJK.04/2021 on the Form and Content of the Annual Report of Issuers or Public Companies, 2021). Beyond national standards established by OJK, sustainability disclosure has also been regulated globally through the Global Reporting Initiative (1997), Sustainability Accounting Standard Board (2011), dan International Sustainability Standard Board (2021).

Sustainability disclosure gains increasing relevance in sectors that create significant environmental impact such as energy. The energy sector generated the largest share of Non-Tax State Revenue (PNBP) in 2025. Ministry of Energy and Mineral Resources (2025) Good management of the energy sector can build strength and prosperity for a nation, but poor management can turn energy into a resource curse, creating dependency, inequality, environmental damage, and conflict among shareholders (Acosta, 2013). The energy sector also connects closely with politics. Engelmen (2021) shows how Indonesia's political economy has relied on natural resource extraction since the New Order era, a pattern that later grew into clientelist relationship. Y. Chen et al. (2014) similarly explain that political connections tend to dominate in industries with high entry barriers.

The connections among political actors in the energy industry appear through ownership and involvement in several major energy companies in Indonesia, such as Nusantara Kaltim Coal (Antara News, 2024), PT Bumi Resources Tbk (Kompas, 2021), PT Toba Sejahtera (Kontrak Hukum, 2025), PT Meta Mineral Pradana (Nurhadi, 2024), and other similar companies. This political connections to the energy sector raise the question of how political connections influence the completeness of corporate sustainability disclosure. To distinguish impact of the directors and board of commissioners, this study examines political connections from the standpoint of two tier board.

Within the framework of agency theory, political connections serve as an interest that can influence the decision made by the agent. Such interest can potentially trigger a conflict of interest, when agent actions no longer align with the interest of the principal. There are varying impacts of political connections on sustainability disclosure. Political protection gives agents an alternative source of legitimacy and resource access, this reduces their need to maintain investor trust through sustainability disclosure. However, the involvement of political actors can increase reputational pressure and demands for public legitimacy, which push companies to present sustainability disclosure that meets existing standards. Several prior studies have examined the relationship between political connections and sustainability disclosure.

Rauf et al. (2021) in their study of 20,578 companies in China, found a significant negative relationship between corporate political connections and CSR disclosure quality. This pattern can occur because politically connected companies feel they have already secured government support, which lowers their incentive to provide high quality sustainability disclosure and causes disclosure to function more as an administrative formality. More broadly, Fan et al. (2007) emphasize the risk that arises when political connections exist without accompanying business competence in company management. The presence of politically connected actors can divert company interests toward serving specific political agendas. This negative impact appears in company performance, politically connected companies recorded three year post IPO returns approximately 18% lower than companies without political connections. Beyond performance, political connections can also influence media coverage. Chu et al. (2025) explain that political connections allow companies to intervene in media coverage to construct a positive image despite inadequate actual performance. These findings indicate that politically connected companies tend to prioritize managing public perception over improving substantive sustainability practices, resulting in lower quality sustainability disclosure that less accurately reflects the company's true condition.

Although prior studies have examined the relationship between political connections and sustainability disclosure (Cheng et al., 2017; Nguyen-Thi-Hong et al., 2025; Rauf et al., 2021), they generally treat political connections as a single construct at the board level without distinguishing between board of directors and commissioners. This distinction matters in country adopting two tier board system such as Indonesia where each board perform different function. Directors manage what to disclose while commissioners oversee management. Therefore, political connections held by each organ may affect sustainability disclosure differently namely directors decision making incentives versus the effectiveness of commissioner oversight. Furthermore, this study elaborates corporate governance function using independent commissioner as a moderating variable. Independent commissioners with their independence are expected to be able to carry out supervision objectively and balance the diversity of interests within the company in accordance with the company objectives. This study addresses these gaps by examining political connections separately for directors and commissioners using both dummy and proportion measures and by testing the moderating role of independent commissioner.

Accordingly, this study offers several contributions. First, it analyses the influence of political connections separately for the board of directors and the board of commissioners, in line with the two-

tier board system applied in Indonesia. Second, it focuses on the energy sector and measures political connections using both dummy and proportional variables. Third, it employs independent commissioners as a moderating variable in the relationship between political connections and sustainability disclosure for both boards. Fourth, it measures disclosure completeness using the most recent standard specifically applicable in Indonesia, SEOJK 16/SEOJK.04/2021

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) define the agency relationship as a contract under which one or more persons (The principal) engage another person (The agent) to perform some services on their behalf, involving the delegation of decision making authority. Based on the fundamental assumption that all parties act as utility maximisers, this raises the belied that the agent will not always act in accordance with the principal interest, thereby creating a conflict of interest. This problem becomes more severe due to information asymmetry, in which the agent holds greater access to information than the principal, creating opportunities for the agent to act opportunistically and conceal unfavorable information.

To minimize this conflict, agency cost becomes necessary. Jensen & Meckling (1976) introduce three types of agency costs. First, monitoring costs refer to the costs incurred by the principal to control, measure, and observe the agent behavior. Monitoring costs include expenses for audits, the development of formal control systems, and budget restrictions. Second, bonding costs refer to the costs incurred by the agent to guarantee that they will not take certain actions that could harm the principal or to ensure that the principal receives compensation if such actions are nevertheless taken. Third, residual loss represents the monetary value of the reduction in the principal welfare resulting from the divergence between the decisions made by the agent and the decisions that would have maximized the principal's welfare.

In the context of politically connected companies, agency problems tend to increase due to the divergence between the company economic goals and the political interests it seeks to build (Karami et al., 2024; A. Khan et al., 2016). In addition, political connections provide protection that can weaken the agent's incentive to act transparently and accountably (Hanafi et al., 2018). This condition opens opportunities for the agent to act opportunistically and in ways misaligned with the principal interests. To minimize agency costs, Eisenhardt (1989) explains two control mechanisms: behavior based control and outcome based control. Behavior based control focuses on strengthening control mechanisms, both internally through monitoring mechanisms, information systems, and managerial share ownership, and externally through capital market reputation effects on the labor market and the company. Meanwhile, outcome based control aims to align the agent's interests with the principal's by tying rewards to the achievement of results, such as financial incentives and equity ownership.

Therefore, this study focuses on the internal control mechanism through the role of independent commissioners as part of the board of commissioners within Indonesia two tier board system. Independent commissioners are expected to strengthen the oversight function, limit the negative influence of political connections, and curb the agent's opportunistic behavior, thereby reducing agency conflict and information asymmetry through improved transparency and disclosure completeness of sustainability disclosure in companies within the energy sector.

Political Connection

There is considerable variation in how scholars define political connections within a company. Fisman (2001) defines political connections as a condition in which a company maintains close ties with family members or close associates of the president. Faccio (2006) defines a company as politically connected if it meets at least one of two criteria: (1) an individual who controls a minimum of 10 percent of the company's voting rights serves as a member of parliament, head of state, minister, or maintains close ties with politicians; or (2) a top company official, such as CEO, serves as a member of parliament, head of state, minister, or maintains close ties with political elites. Zhang (2017) defines political connections as a condition in which the CEO holds a background as a bureaucrat or military official, whether currently active or as a former official.

Political connections are highly contextual as they are shaped by the characteristics of each country. Understanding the history and dynamics of political connections in Indonesia is therefore important for this study. The relationship between political actors and business players in Indonesia

has a long history that can be traced from the New Order era through the Reform era. During the New Order era, the closeness between political actors and business players developed through distinct patterns. Indigenous business players emerged from within the country and were generally affiliated with the Golkar party and the families of government officials, while Chinese Indonesian business players required political patrons to secure the safety and continuity of their businesses. This patronage took the form of close ties with the President's family, Golkar, and military institutions (Warburton, 2024). Following the Reform era, the first election that reintroduced a multiparty system not only intensified competition among political actors but also expanded transactional relationships between business players and political actors down to the local level (Herlijanto, 2016). Aspinall & Berenschot (2019) explain that as the cost of political participation rose, political actors increasingly sought financial support from business players, while business players themselves moved into politics directly. The election of President Joko Widodo, a business figure turned president, further deepened this relationship. Warburton (2024) notes that business players held 51.02% of positions in the Indonesia Maju cabinet and 45.5% of legislative seats in the 2019 to 2024 period, reflecting the extent to which business and politics have become intertwined in Indonesia.

Beyond the history of political connections in Indonesia, Indonesian corporate governance applies a two-tier board system that requires companies to be understood through two distinct structures: the board of directors (BOD) as the management function and the board of commissioners (BOC) as the oversight function. The BOD is responsible for the company's daily operations and performance, while the BOC sits at a higher level and ensures that the BOD operates in accordance with good corporate governance principles. However, the implementation of the working relationship between the BOD and BOC can vary across companies, as each company generally applies its own governance guidelines and internal oversight mechanisms. Therefore, this study analyzes political connections separately for the BOD and BOC.

Hypothesis Development

Politically Connected Board of Directors

Political connections serve as a strategic resource for companies as they function as an intangible asset that minimizes bureaucratic barriers and market uncertainty (Arsyad & Hwang, 2014; T. Chen et al., 2024). By building connections with the government, companies gain access to various privileges, ranging from priority in winning government procurement contracts to easier access to funding with more favorable loan terms (Belghitar et al., 2019). In addition, political connections provide protection in the form of tax incentives and reduced regulatory burdens that often disadvantage other competitors (Xu et al., 2024). Beyond easing access to capital and reducing regulatory risk, political connections also create a sense of security from market pressure (Riyadi Aprayuda & Fahmi, 2025). This sense of security lowers the incentive for agents to act efficiently and accountably. Such conditions trigger moral hazard, where the board of directors bases its strategic decisions not on rational economic considerations but on political interests (Pang & Wang, 2021). When political interests dominate, agency costs rise because the board of directors frequently executes unproductive political agendas. This ultimately reduces the quality of financial reporting (Liedong & Rajwani, 2018; Septiani & Munandar, 2025).

This indifference toward transparency extends into sustainability disclosure practices. Theoretically, companies publish sustainability disclosure to demonstrate to investors, the public, media, government, and NGOs that they maintain a high awareness of sustainability issues (Petrescu et al., 2020; Sahetapy, 2023). Positive perceptions from stakeholders matter because they determine access to funding (Do et al., 2023). However, politically connected companies already secure this access without needing to prove their environmental or social accountability to the market, which weakens their drive to provide comprehensive disclosure.

Similarly, Rauf et al. (2021) found that politically connected companies tend to experience a decline in sustainability disclosure quality due to the protection given by government. In that situation, disclosure function more as a formality rather than act of accountability. Similarly, Hung et al. (2017) and Saraswati et al. (2020) found that political connections ease companies access to

funding, which reduces litigation risk and consequently lowers the urgency to provide comprehensive sustainability disclosure. However, the influence of political connections is not solely determined by their mere presence, but also by the proportion of political actors within the board structure. This is crucial because decision making mechanisms in Indonesia generally follow a deliberative system that still considers collective strength. A dominant proportion allows political agendas to control the direction of company policy through legal and procedural means. Based on these findings, the following hypotheses are developed:

H1a : Companies with politically connected directors will provide less sustainability disclosure.

H1b : The proportion of politically connected directors negatively influences sustainability disclosure

Politically Connected Commissioners

Ensuring good corporate governance cannot rely solely on external control mechanisms but requires a robust internal oversight system through the board of commissioners (N. Wati et al., 2020). Appointed and dismissed by the General Meeting of Shareholders, the board of commissioners is responsible for carrying out the oversight function objectively. Those function such as providing advice, evaluating policies, and delivering crucial recommendations to the board of directors (The Law of Republic Indonesia Number 40 of 2007 Concerning Limited Liability Company, 2007). The ability to perform functions becomes important as commissioners act to ensure that agent operational activities remain in line with company goals. Given the importance of this monitoring function, the effectiveness of the board of commissioners depends greatly on their independence, competence, and integrity (Oktavia et al., 2025).

In practice, the recruitment process for the board of commissioners often falls short of professional standards. Appointments to commissioner positions are frequently used as a means of patronage, distributing positions as a way of returning political favors (Wahyu, 2024). This situation becomes increasingly concerning in sectors with high strategic value. A recent report Transparency International (2025) reveals that in the context of state owned enterprises, the energy sector records the highest level of politician involvement in commissioner positions, reaching 40.5%. This finding indicates how vulnerable the energy sector is to the politicization of commissioner appointments.

When independence, competence, and integrity are not the primary considerations in selecting commissioners, the effectiveness of internal control through management oversight weakens (N. Wati et al., 2023). This condition not only risk weakening corporate governance but also directly contributes to a decline in company performance (Junus et al., 2022). EL Ammari (2023) confirms that commissioners appointed through political connections tend to lack professional capacity and prioritize personal interests over company interests. Furthermore, limited time and divided focus among commissioners who hold multiple positions, particularly political ones, prevent the oversight function from running optimally (Trinugroho et al., 2023).

Furthermore, research in Latin America shows that the political influence in corporations is not solely determined by the presence of political connections, but also by the proportion of political actors within the board structure (Mejía-Amaya & Pombo, 2025). This is reinforced by the findings of Domadenik et al. (2016) in Slovenia which show that a one percentage point increase in the proportion of politically connected board members can significantly reduce company value. Based on these findings, the following hypotheses are developed:

H2a : Companies with politically connected commissioners will provide less sustainability disclosure.

H2b : The proportion of politically connected commissioners negatively influences sustainability disclosure.

The Moderating Role of Independent Commissioners

Independent commissioners are external parties who have no affiliating relationship with major shareholders, members of the board of commissioners, or other members of the board of directors within the company (Regulation of the Financial Services Authority Number 51/POJK.03/2017, 2017). Although they carry out the same oversight duties as other board members, their independent status is expected to provide objective assessments and decisions to reduce the misuse of authority by the board of directors (Yunusa et al., 2023). Companies are required to have independent commissioners given their important role in improving company performance, ensuring compliance with corporate governance principles, and reducing financial statement manipulation to protect shareholders (Enny Susilowati Mardjono & Yahn-Shir Chen, 2020; Robin & Amran, 2016). By prioritizing shareholder interests, independent commissioners help reduce agency costs (Handriani, 2020).

In politically connected companies, Sari et al. (2023) explain that independent commissioners can moderate the negative relationship between political connections and the quality of financial reporting and fraud practices. In the context of sustainability disclosure, show that independent commissioners serve as a moderating variable in aligning ESG interests across various ownership structures in Jordan, finding that independent commissioners strengthen the positive relationship between ESG practices and family, foreign, state, and managerial ownership. Zaid et al. (2020) also emphasize that the presence of independent directors can strengthen the influence of government and foreign ownership on CSR disclosure in Palestine. Based on these findings, this study develops the following hypotheses regarding the moderating role of independent commissioners:

H3a: Independent commissioners weaken the negative influence of board directors political connections on sustainability disclosure.

H3b: Independent commissioners weaken the negative influence of the proportion of board directors political connections on sustainability disclosure.

H3c: Independent commissioners weaken the negative influence of board of commissioners political connections on sustainability disclosure.

H3d: Independent commissioners weaken the negative influence of the proportion of board of commissioners political connections on sustainability disclosure.

Research Framework

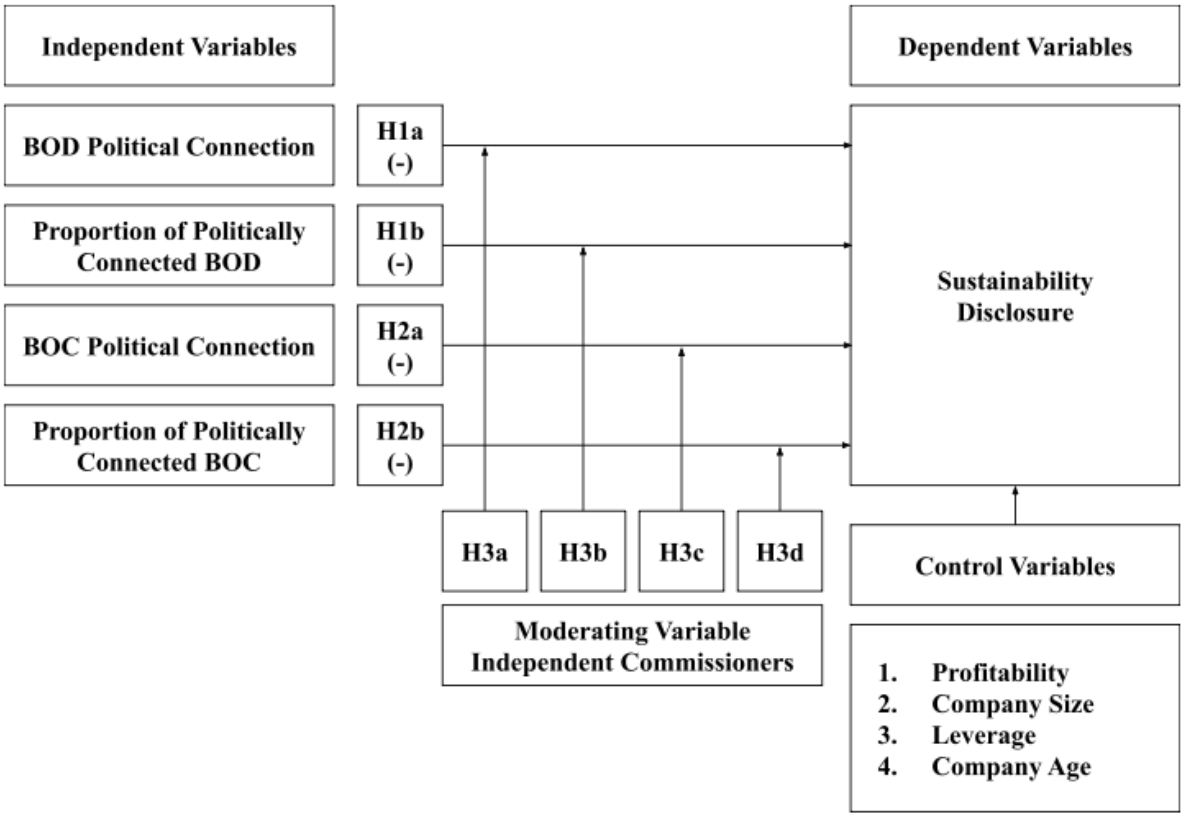

Figure 1. Research Framework

RESEARCH METHOD

The research objects are energy companies listed on the Indonesia Stock Exchange (BEI) from 2021 to 2024. The data collected represents secondary data sourced from annual reports and sustainability disclosure reports. This study applies purpose sampling as the sampling technique. Based on the established criteria, 233 samples were obtained over a four year period, as detailed in Table 1. Of the 91 listed energy companies, 23 companies did not publish any sustainability report throughout 2021-2024 and one company that was delisted were excluded resulting in a final sample of 67 companies. The final sample observations of 233 is lower than the 268 potential firm year observations as some companies did not publish sustainability report in every year of the 2021-2024 period.

Table 1. Sample Distribution

No	Criteria	Total
1	Energy sector companies listed on BEI during the 2021-2024 period	91
2	Companies that did not publish sustainability disclosure	(23)
3	Companies delisted from BEI	(1)
	Total final sample companies	67
	Potential observations (67 x 4 years)	268
4	Firm year observation without a sustainability report	(35)
	Total sample observations	233

This study applies a quantitative approach using fixed effect panel data regression analysis to examine the relationships between variables with data processing carried out using STATA. The panel fixed effect panel data regression model used to test the influence of political connections on sustainability disclosure in energy companies can be expressed as follows:

$$(i)\boldsymbol{SRDISC} = \boldsymbol{\alpha} + \boldsymbol{\beta_1 POLCN_{it}} + \boldsymbol{\beta_2 PROFIT_{it}} + \boldsymbol{\beta_3 SIZE_{it}} + \boldsymbol{\beta_2 LEV_{it}} + \boldsymbol{\beta_2 AGE_{it}} + \boldsymbol{\varepsilon}$$

$$(ii)\boldsymbol{SRDISC} = \boldsymbol{\alpha} + \boldsymbol{\beta_1 POLCN_{it}} + \boldsymbol{\beta_2 IC_{it}} + \boldsymbol{\beta_3 (POLCON.IC)_{it}} + \boldsymbol{\beta_4 PROFIT_{it}} + \boldsymbol{\beta_5 SIZE_{it}} + \boldsymbol{\beta_6 LEV_{it}} + \boldsymbol{\beta_7 AGE_{it}} + \boldsymbol{\varepsilon}$$

SRDISC represents sustainability disclosure obtained from the sustainability disclosure report or the company annual report. **POLCN** indicates political connections is the moderating variable for independent commissioners. **PROFIT** represents company profitability, **SIZE** represents company size, **LEV** indicates the level of debt usage in the company's funding structure, and **AGE** represents company age.

Sustainability disclosure serves as the dependent variable, measured using the SEOJK No. 16/SEOJK.04/2021 index. This index consists of six main dimensions: sustainability strategy, sustainability performance highlights, company profile, directors' statement, sustainability governance, and sustainability performance, which are further specified into 50 indicators. Each indicator is evaluated based on whether it is disclosed in the sustainability disclosure report (Table 3). A score of 1 is assigned if disclosed and 0 if not disclosed, resulting in a minimum score of 0 and a maximum score of 50 (Table 2). The SEOJK No. 16/SEOJK.04/2021 index has been applied by Nafi'a (2025) demonstrating the relevance of this latest index issued by OJK in assessing sustainability disclosure in Indonesia, in accordance with the requirements set by the Financial Services Authority in 2021.

Table 2. Dependent Variable: SEOJK No.16/SEOJK.04/2021 Indicators

Category		**Criteria**
Sustainability strategy	A1	Explanation of sustainability strategy
Economic aspects	B1	Quantity of production or services sold; revenue or sales; net profit or loss; environmentally friendly products; and involvement of local parties related to sustainable finance business processes
Environmental aspects	B2	Energy use; reduction of emissions produced; waste and effluent reduction; biodiversity conservation
Company profile	C1	Sustainability vision, mission, and values
	C2	Company address
	C3	Business scale
	C4	Products, services, and business activities carried out
	C5	Membership in associations
	C6	Significant changes to issuers and public companies
Directors statement	D1	Directors statement
Sustainability governance	E1	Person in charge of sustainable finance implementation
	E2	Competency development related to sustainable finance
	E3	Risk assessment of sustainable finance implementation
	E4	Relationships with stakeholders
	E5	Issues related to sustainable finance implementation
Sustainability performance	F1	Activities to build a sustainability culture
	F2	Comparison of targets and performance in production, portfolio, financing targets, or investment, revenue, and profit or loss
	F3	Comparison of targets and performance of portfolios, financing targets, or investments in financial instruments or projects aligned with sustainable finance
	F4	Environmental costs
	F5	Use of environmentally friendly materials
	F6	Total and intensity of energy used
	F7	Efforts and achievements in energy efficiency and renewable energy use
	F8	Water use
	F9	Impact of operational areas located near or within conservation areas or biodiversity regions
	F10	Biodiversity conservation efforts
	F11	Total and intensity of emissions produced by type
	F12	Efforts and achievements in emission reduction
	F13	Total waste and effluent produced by type
	F14	Waste and effluent management mechanisms
	F15	Spills that occurred
	F16	Number and substance of environmental complaints received and resolved
	F17	Commitment to equal service mechanisms for products and/or services to consumers
	F18	Equal employment opportunity
	F19	Child labor and forced labor
	F20	Regional minimum wage
	F21	Decent and safe working environment
	F22	Employee training and capability development

	F23	Impact of operations on surrounding communities
	F24	Community complaints
	F25	Environmental and social responsibility activities
	F26	Innovation and development of sustainable financial products/services
	F27	Products/services evaluated for customer safety
	F28	Impact of products/services
	F29	Products/services recalled
	F30	Customer satisfaction surveys on sustainable financial products and/or services
Others	G1	Written verification from an independent party (if any)
	G2	Feedback form
	G3	Response to feedback from the previous year's sustainability disclosure report
	G4	List of disclosures in accordance with OJK Regulation Number 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies.

Source: (Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 16/SEOJK.04/2021 on the Form and Content of the Annual Report of Issuers or Public Companies, 2021)

The independent variable in this study is political connections, which is further divided into political connections of the board of directors and the board of commissioners, measured both as a dummy variable (Edi & Sarwani, 2025; Wallad & Darniaty, 2023) and as a proportional percentage to determine the size of the contribution of political connections that can influence sustainability disclosure (Nugrahanti, 2021). A company is considered to have political connections if a member of the board of directors or board of commissioners is (a) a district head, member of parliament, government institution official, minister, or involved in a political party; (b) has a family relationship with a politician; or (c) has a military background (Habib et al., 2017; Li et al., 2015; Lin et al., 2015). The moderating variable in this study is independent commissioners (IC), measured using the percentage of independent commissioner members relative to the total members of the board of commissioners in the company.

This study employs four control variables: profitability, company size, leverage, and company age. Profitability is measured using return on assets, calculated as the ratio of current year profit to total assets (Octavio & Wicaksono, 2025; Zhang, 2017). Return on assets is important because companies with higher profitability levels have greater resources to implement broader reporting and disclosure practices (Grzybek, 2022; Qiu et al., 2016). Company size is obtained from the logarithm of total assets (Cheng et al., 2017; Maharani et al., 2023a). Company size influences the level of stakeholder visibility, which can increase pressure to provide broader disclosure (Almagtome et al., 2020; Moqbel et al., 2014). Leverage is represented by the ratio of total debt to company equity (H. U. R. Khan et al., 2022; Maharani et al., 2023b). Companies with higher leverage levels face greater pressure from creditors, giving them an incentive to improve transparency, including through the disclosure of relevant information to reduce risk perception (Tan et al., 2024). Company age is based on the number of years since the company was established (Octavio & Wicaksono, 2025; Zhang, 2017). Companies that have operated longer tend to have more stable management systems, better understanding of regulations, and a greater tendency to respond to stakeholder demands, including in their information disclosure practices (Hossain & Farooque, 2019). A detailed description of the independent and control variables is presented in Table 3.

Table 3. Dependent, Independent and Control Variables

Variable	Measurement	Source
Sustainability Disclosure	Sustainability disclosure index is based on the SEOJK No. 16/SEOJK.04/2021. There are 50 indicators of disclosure based on that index. Completeness of disclosure measured by: $\frac{Total\ indicator\ reported\ by\ company}{}$	(Edi & Sarwani, 2025; Nugrahanti, 2021; Wallad & Darniaty, 2023)

Political Connections	Political connections are measured using two approaches; dummy variable and proportion 1. Dummy variable; companies with political connections are assigned a value of 1, while those without are assigned a value of 0. 2. Proportion of political connections. Calculated by comparing the number of board of directors and/or board of commissioners member who have political connections to the total number of board of directors and/or board of commissioners members in the company	(Edi & Sarwani, 2025; Nugrahanti, 2021; Wallad & Darniaty, 2023)
Profitability	Measured using return on assets (ROA), calculated as the percentage of net profit relative to total assets	(Octavio & Wicaksono, 2025; Zhang, 2017)
Company size	Logarithm of total company assets	(Cheng et al., 2017; Maharani et al., 2023a)
Leverage	Ratio of total debt to company assets	(H. U. R. Khan et al., 2022; Maharani et al., 2023b)
Company Age	Number of years since the company was listed on BEI	(Octavio & Wicaksono, 2025; Zhang, 2017)

RESULT AND DISCUSSION

Descriptive Statistics

Table 4 presents the descriptive statistics of the variables used in this study. The dependent variable, sustainability disclosure, has a mean value of 0.958 with a minimum value of 0.74 and a maximum of 1. This high mean among energy companies is likely to reflect the regulatory compliance since sustainability report is mandatory for listed companies under OJK regulation number 51/POJK.03/2017. Political connections in energy companies are more commonly found in the board of commissioners than in the board of directors, as shown by their respective mean values of 0.369 and 0.197. This is further supported by the higher mean proportion of political connections in the board of commissioners at 0.126, compared to the proportion of political connections in the board of directors at 0.055.

Table 4. Descriptive Statistics

Variable	Mean	Std.dev	Min	Max
SRDISC	0.958	0.050	0.74	1
DIR	0.197	0.399	0	1
PDIR	0.055	0.1322	0	0.6
KOM	0.369	0.484	0	1
PKOM	0.126	0.205	0	1
PKIND	0.437	0.133	0	1
PROFIT	0.080	0.326	-3.554	2.517
SIZE	26.545	4.914	13.186	32.754
LEV	0.332	0.248	0	1.240
AGE	27.416	13.776	5	64

Note: SRDISC = Sustainability disclosure; DIR = Politically connected directors; PDIR = Proportion of politically connected directors; KOM = Politically connected board of commissioners; PKOM = Proportion of politically connected board of commissioners; PKIND = Proportion of independent commissioners in the board of commissioners; PROFIT = Profitability; SIZE = Size; LEV = Leverage; AGE = Company age.

Correlation Analysis

Table 5 shows that all political connections variables have a consistently negative relationship with sustainability disclosure. Specifically, the presence of politically connected directors (DIR) and their proportion (PDIR) show negative correlations of -0.1057 and -0.1525 respectively. This suggests that political involvement in the board of directors is associated with lower level of sustainability disclosure. The same pattern appears in the board of commissioners, where politically connected commissioners (KOM) show a negative correlation of -0.1375, and the proportion of politically connected commissioners records the strongest negative correlation at -0.2463.

Table 5. Correlation Matrix

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
(1) SR	1									
(2) DIR	-0.1057	1								
(3) PDIR	-0.1525	0.8470	1							
(4) KOM	-0.1375	0.3133	0.2730	1						
(5) PKOM	-0.2463	0.3346	0.2546	0.8064	1					
(6) PKIND	0.1563	0.0803	0.0131	-0.0091	0.0128	1				
(7) PROFIT	0.0085	-0.0149	0.0258	0.0923	0.0294	-0.0239	1			
(8) SIZE	-0.0347	0.2990	0.1955	0.1239	0.0641	0.0947	0.0641	1		
(9) LEV	-0.0872	-0.0859	-0.1338	-0.0972	0.0438	0.1737	-0.2628	-0.3081	1	
(10) AGE	-0.0424	0.1058	0.0687	0.3087	0.3400	0.0081	-0.0362	0.1319	-0.0761	1
Multicollinearities										
Tolerance		0.242	0.267	0.326	0.311	0.936	0.913	0.787	0.764	0.859
VIF		4.13	3.74	3.07	3.21	1.07	1.09	1.27	1.31	1.16

Note: SRDISC = Sustainability disclosure; DIR = Politically connected directors; PDIR = Proportion of politically connected directors; KOM = Politically connected board of commissioners; PKOM = Proportion of politically connected board of commissioners; PKIND = Proportion of independent commissioners in the board of commissioners; PROFIT = Profitability; SIZE = Size; LEV = Leverage; AGE = Company age.

This study also conducts a multicollinearity test to ensure that no multicollinearity problems exist among the independent variables. Multicollinearity can be identified through the tolerance value and Variance Inflation Factor (VIF). A regression model is considered free from multicollinearity if the tolerance value is greater than 0.10 and the VIF value is less than 10. Based on the test results in Table 4, all variables have tolerance values above 0.10 and VIF values below 10, leading to the conclusion that no serious multicollinearity problems exist in this research model.

Regression Test Result

Table 6 presents the correlation matrix for the variables examined in this study. Model 1a finds a non-significant coefficient (β = -0.1083; p = 0.176) for the influence of politically connected directors, indicating that H1a is not supported. Model 1b finds a negative and significant coefficient for the proportion of politically connected directors (β = -0.0457; p = 0.052), indicating that H1b is supported. Model 2a shows a significant negative coefficient (β = -0.0161; p = 0.015) for the political connections variable of the board of commissioners, supporting H2a. Model 2b examines the influence of the proportion of the board of commissioners and finds a negative and significant coefficient (β = -0.0669; p = 0.000), supporting H2b.

These findings align with Hung et al. (2017), Rauf et al. (2021), and Saraswati et al. (2020) who found that political connections tend to reduce the quality and urgency of sustainability disclosure. Specifically, regarding the board of commissioner, Nguyen-Thi-Hong et al. (2025) found that the presence of politically connected commissioners is negatively associated with ESG disclosure in developing countries. Furthermore, Domadenik et al. (2016) and Mejía-Amaya & Pombo (2025) confirm that the greater the proportion of political actors in the board, the more significant the negative impact on company performance and transparency. Beyond these direct effects, this study also tests whether independent commissioners can moderate the negative relationship between political connections and sustainability disclosure.

Subsequently, Models 3a through 3d test the moderating role of independent commissioners in the relationship between political connections and sustainability disclosure (Table 7). Model 3a shows a non-significant interaction coefficient for independent commissioners and politically connected board of directors (β = 0.0823; p = 0.144), indicating that H3a is not supported. Model 3b shows a positive and significant interaction coefficient for independent commissioners and the proportion of politically connected board of directors (β = 0.5101; p = 0.019), indicating that H3b is supported. Model 3c reveals a positive and significant result for independent commissioners and the board of commissioners (β = 0.1533; p = 0.000), indicating that H3c is supported. Model 3d finds a positive and significant coefficient for independent commissioners and the proportion of the board of commissioners (β = 0.3671; p = 0.001), indicating that H3d is supported.

Table 6. Main Regression Result: The Influence of Political Connections on Sustainability Disclosure

Variabel	**Model 1a**		**Model 1b**		**Model 2a**		**Model 2b**	
	Coef	**p-value**	**Coef**	**p-value**	**Coef**	**p-value**	**Coef**	**p-value**
DIR	-0.0108	0.176	-	-	-	-	-	-
PDIR	-	-	-0.0458	0.052*	-	-	-	-
KOM	-	-	-	-	-0.0161	0.015**	-	-
PKOM	-	-	-	-	-	-	-0.0670	0.000***
SIZE	-0.0004	0.576	-0.0004	0.510	-0.0005	0.416	-0.0005	0.419
PROFIT	0.0030	0.760	0.0032	0.741	0.0058	0.550	0.0065	0.490
LEV	-0.0177	0.186	-0.0198	0.139	-0.0185	0.163	-0.0119	0.359
AGE	-0.0001	0.590	-0.0001	0.578	0.0000	0.897	0.0002	0.373

Note: DIR = Politically connected board of directors; PDIR = Proportion of politically connected board of directors; KOM = Politically connected board of commissioners; PKOM = Proportion of politically connected board of commissioners; DDKI = Interaction of directors dummy × IC; PDKI = Interaction of proportion of directors × IC; DKKI = Interaction of commissioners dummy × IC; PKKI = Interaction of proportion of commissioners × IC; PROFIT = Profitability; SIZE = Company size; LEV = Leverage; AGE = Company age. Statistical significance is assessed at the 1%, 5%, and 10% levels, denoted by ***, **, and * respectively.

Table 7. Regression Result: The Role of Independent Commissioners

Variabel	Model 3a		Model 3b		Model 3c		Model 3d	
	Coef	p-value	Coef	p-value	Coef	p-value	Coef	p-value
DIR	-0.0497	0.064*	-	-	-	-	-	-
PDIR	-	-	-0.2639	0.006***	-	-	-	-
KOM	-	-	-	-	-0.0835	0.000***	-	-
PKOM	-	-	-	-	-	-	-0.2311	0.000***
DDKI (Interaction)	0.0823	0.144	-	-	-	-	-	-
PDKI (Interaction)	-	-	0.5101	0.019**	-	-	-	-
DKKI (Interaction)	-	-	-	-	0.1533	0.000***	-	-
PKKI (Interaction)	-	-	-	-	-	-	0.3671	0.001***
SIZE	-0.0006	0.389	-0.0004	0.499	-0.0008	0.195	-0.0006	0.321
PROFIT	0.0019	0.846	0.0025	0.793	0.0066	0.482	0.0066	0.477
LEV	-0.0261	0.052*	-0.0217	0.102	-0.0260	0.047**	-0.0163	0.201
AGE	-0.0002	0.483	-0.0002	0.460	0.0001	0.694	0.0002	0.304

Note: DIR = Politically connected board of directors; PDIR = Proportion of politically connected board of directors; KOM = Politically connected board of commissioners; PKOM = Proportion of politically connected board of commissioners; DDKI = Interaction of directors dummy × IC; PDKI = Interaction of proportion of directors × IC; DKKI = Interaction of commissioners dummy × IC; PKKI = Interaction of proportion of commissioners × IC; PROFIT = Profitability; SIZE = Company size; LEV = Leverage; AGE = Company age. Statistical significance is assessed at the 1%, 5%, and 10% levels, denoted by ***, **, and * respectively.

Discussion

This study separately analyzes the influence of political connections within the board of directors and the board of commissioners on sustainability disclosure in the energy sector along with the moderating role of independent commissioners. The first finding shows that the individual presence of a politically connected board of directors member does not significantly influence sustainability disclosure. However, when political connections are measured proportionally, the second finding reveals a significant negative influence on sustainability disclosure. This suggests that the association between political connections within the board of directors and sustainability disclosure becomes evident when political connections are measured by their proportion rather than by their mere presence. In the Indonesian context, where decision making follows a deliberative system, a growing proportion of politically connected members strengthens their agenda setting power to shape company policy, while simultaneously creating social pressure on other board members to align with the majority view. Consequently, the higher the proportion of politically connected directors, the greater the accumulation of political resources and influence which ultimately undermines the transparency of corporate sustainability disclosure.

Unlike the board of directors, political connections within the board of commissioners show a significant negative influence on sustainability disclosure, both when measured using a dummy variable (Third finding) and proportion (Fourth finding). This difference in pattern can be explained by the fundamental differences in the function and composition of the two organs within the two tier board system. As the oversight organ, the board of commissioners is responsible for ensuring that company management operates in accordance with good governance principles. With a generally smaller number of members compared to the board of directors, the presence of even a single politically connected commissioner may be sufficient to significantly influence the direction of oversight policy, including policies related to sustainability disclosure. Furthermore, as the proportion of politically connected commissioners increases, the distortion of the oversight function becomes more widespread, further strengthening the negative influence.

These findings can be explained through two mutually reinforcing mechanisms. First, the effectiveness of commissioner oversight depends on the professional competence of its members. Jensen & Meckling (1976) emphasize that the effectiveness of board oversight is key to mitigating information asymmetry between the agent and the principal. When professional capacity is not the primary consideration in appointing commissioners, the board ability to carry out its oversight function substantively becomes limited (Ilona et al., 2022; Murti, 2024). This widens the information asymmetry between management and stakeholders, resulting in a decline in the completeness of sustainability disclosure to the public. Second, even when politically connected commissioners possess the technical capacity to oversee, the independence of their judgment can be undermined by the interests behind their appointment, namely political interests. As a result, the orientation of oversight shifts from promoting management accountability to stakeholders toward protecting specific interests. This positions political connections as a substitute for reporting obligations, weakening the company's incentive to disclose sustainability information transparently and substantively (Nguyen-Thi-Hong et al., 2025).

Unlike the board of directors, the board of commissioners variable, both in the dummy measurement (KOM) in the third finding and the proportion measurement (PKOM) in the fourth finding, shows a significant negative influence on sustainability disclosure. This difference can be explained by the distinct roles of the board of directors and the board of commissioners in the corporate governance structure. As the executive organ, the board of directors makes decisions collectively and political connections only show a significant influence when they are spread dominantly across a sufficiently large proportion of members. In contrast, the board of commissioners as the oversight organ generally has fewer members, meaning the presence of even a single politically connected member is sufficient to significantly influence the direction of oversight policy, including policies related to sustainability disclosure.

The moderation test results further reveal that independent commissioners can weaken the negative relationship between political connections and sustainability disclosure, although with different nuances between dummy and proportion based measurements. For political connections within the board of directors, the moderating effectiveness of independent commissioners is only detected when board of directors political connections are measured quantitatively through proportion, rather than merely their presence. This pattern is consistent with the earlier finding that the proportion of politically connected board of directors members are more determining than simply whether politically connected directors are present or not. Meanwhile, for political connections within the board of commissioners, independent commissioners consistently weaken the negative influence both when measured by dummy and proportion. This indicates that the influence of commissioner political connections is significant under both measurement approaches, allowing independent commissioners to work effectively in neutralizing that influence, whether political connections within the board of commissioners are measured by their presence or their proportion.

These findings are consistent with the important role of independence within the corporate board structure. Political connections within the board of directors may shift the company's interests away from reporting transparency toward political interests, while politically connected commissioners further weaken the internal oversight function (Wang et al., 2021). Both conditions together contribute to lower levels of corporate sustainability disclosure. Independent commissioners, free from political affiliations and management interests, can carry out the oversight function more objectively, making them an effective counterbalance to the dominance of political connections within the board. Therefore, the requirement for independent commissioners to constitute at least 30% of the board under POJK Number 33/POJK.04/2014 may serve not only as regulatory obligation, but also as governance mechanism for promoting transparency and accountability in corporate sustainability disclosure (Financial Service Authority Regulation Number 33/POJK.04/2014, 2014).

CONCLUSION AND SUGGESTIONS

This study finds varying results depending on the measurement approach used for political connections. For the board of directors, the presence of political connections (Dummy) is not significantly influencing sustainability disclosure, but the proportion of politically connected board of directors members prove to negatively associated with it. This suggests that the dominance of political connections within the board of directors structure matters more than merely their presence. For the board of commissioners, both the presence and proportion of political connections negatively associated with sustainability disclosure. This negative association is weaker at higher proportions of independent commissioners, as indicated by the positive interaction coefficients. Although, their effectiveness on the board of directors is only evident when political connections are measured proportionally while for the board of commissioners it applies consistently under both measurement approaches.

These findings offer two main contributions. First, this study demonstrates that a proportion based measurement approach captures the influence of board political connections more precisely than the dummy approach commonly used in previous studies. Second, the findings confirm that board independence, particularly through independent commissioners, serves as a substantive governance mechanism that strengthens transparency and accountability in corporate sustainability disclosure, rather than merely fulfilling a regulatory obligation.

This study contributes several theoretical implications to the literature on political connections and sustainability disclosure. First, political connections weaken sustainability disclosure differently across board organs. Previous study treats political connections as a single construct, this may obscure which board organ drives the effect. Second, independent commissioner moderates the negative effect of political connections on sustainability disclosure. This support the role of internal control mechanism in agency theory. Second, this study shows that independent commissioners as an internal control mechanism within agency theory moderate the negative effect of political connections on sustainability disclosure. To the best of our knowledge, few studies have examined the moderating role of independent commissioners in the relationship between political connections and sustainability disclosure. These findings suggest that the effectiveness of internal oversight is conditional rather than uniform depending on the board organ involved and the degree of political dominance within it.

From a practical perspective, the findings offer implications for regulators and companies. For regulators, the negative association between political connections and sustainability disclosure suggests the need to consider limits on the number or proportion of politically connected members in board organs. For companies, the findings highlight the importance of tightening the nomination mechanism and eligibility requirements for board members. Those requirements ensure that appointed board organs have the competence, integrity, and capability to lead the company in the best interest of the company and its stakeholder. Companies may also strengthen the role of independent commissioners as an internal oversight mechanism that can weaken the negative effect of political connections on sustainability disclosure.

This study has several limitations. First the sample is limited only to energy sector companies listed on the Indonesia Stock Exchange and relies primarily on annual reports and sustainability disclosure reports without cross validation. Future studies are encouraged to expand the sample to other sectors. Second, political connections are specifically categorized based on (a) a district head, legislator member, government institution official, minister, or involved in a political party; (b) has a family relationship with a politician; or (c) previously serve in a military. This classification may not informal connections therefore future studies should widen the scope of the measurement and examine which types of political connections give the most influence. Third, sustainability disclosure is measured by a completeness index and does not capture disclosure quality. Fourth, this study examines only independent commissioners as a moderating variable. Future studies may explore additional moderating variables such as audit committee characteristics or institutional ownership structure.

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