The Influence of Credit Growth, Investment Decisions, Audit Quality, Financial Expertise of Directors and Commissioners on Sustainable Finance

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ABSTRACT

This study aims to examine the effect of credit growth, investment decisions, audit quality, and the financial expertise of directors and commissioners on sustainable finance in the Indonesian banking sector. The sample consisted of 47 banks listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023, with a total sample size of 136. The data used is secondary data obtained from financial reports, annual reports, and sustainability reports of banking companies. Data analysis was carried out using the multiple regression method with SPSS version 21. The results of the study show that credit growth has a significant positive effect on sustainable finance, indicating that increasing credit can support the achievement of sustainability goals in the banking sector. On the other hand, investment decisions, audit quality, and the financial expertise of directors and commissioners do not show a significant effect on sustainable finance. This finding suggests that, while other factors are important in corporate management, credit growth remains the primary factor contributing to sustainable finance in the Indonesian banking sector.

***Keywords**: Audit Quality; Credit Growth; Financial Expertise; Financial Sustainability; Investment Decisions*

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh pertumbuhan kredit, keputusan investasi, kualitas audit, serta keahlian keuangan direksi dan komisaris terhadap keuangan berkelanjutan di sektor perbankan Indonesia. Sampel yang digunakan terdiri dari 47 bank yang terdaftar di Bursa Efek Indonesia (BEI) pada periode 2021–2023, dengan total data sampel sebanyak 136. Data yang digunakan merupakan data sekunder yang diperoleh dari laporan keuangan, laporan tahunan, dan laporan keberlanjutan perusahaan perbankan. Analisis data dilakukan dengan metode regresi berganda menggunakan SPSS versi 21. Hasil penelitian menunjukkan bahwa pertumbuhan kredit memiliki pengaruh positif yang signifikan terhadap keuangan berkelanjutan, menunjukkan bahwa peningkatan kredit dapat mendukung pencapaian tujuan keberlanjutan dalam sektor perbankan. Di sisi lain, keputusan investasi, kualitas audit, serta keahlian keuangan direksi dan komisaris tidak menunjukkan pengaruh signifikan terhadap keuangan berkelanjutan. Temuan ini mengindikasikan bahwa meskipun faktor-faktor lain penting dalam pengelolaan perusahaan, pertumbuhan kredit tetap menjadi faktor utama yang berkontribusi terhadap keuangan berkelanjutan di sektor perbankan Indonesia.

***Kata kunci**: Keahlian Keuangan; Keputusan Investasi; Keuangan Berkelanjutan; Kualitas Audit; Pertumbuhan Kredit*

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INTRODUCTION

The banking sector plays a crucial role in the Indonesian economy as a financial intermediary but faces several challenges, including intense competition, macroeconomic volatility, digital transformation, and the impact of the global crisis. These factors require financial stability within the sector to ensure its smooth operation (Khaerunnisa, 2024). Throughout 2024, the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) revoked the operational licenses of 15 banks. This action reflects OJK's efforts to enhance the stability and strength of the national banking sector, while also prioritizing the protection of consumer interests. In response to these challenges, the banking industry must integrate sustainability principles into its business strategies. Sustainability, particularly in the form of sustainable finance, involves a bank's ability to maintain its operations, fulfill its financial obligations, and ensure long-term success without encountering financial difficulties. Despite the growing importance of sustainability, factors such as credit growth, investment decisions, audit quality, and the financial expertise of directors still show mixed effects on the success of sustainable finance in the banking sector. This indicates that while some factors might contribute to sustainable finance, their overall impact remains inconclusive, highlighting the complexity of achieving sustainability goals within the industry.

Credit growth has been shown to have varying effects on bank performance. Alwi & Fadil (2023) found a positive impact of credit growth on bank stock prices, suggesting that increased credit can boost market confidence. However, Liyanagamage (2021) argues that credit growth can reduce bank stability, indicating potential risks associated with expanding credit. Other studies, such as those by Nurjanah & Imronudin (2023) and Purnomo (2023), concluded that credit growth has no effect on financial performance or company value, reflecting the complexity and differing outcomes in the relationship between credit growth and financial outcomes. Investment decisions also produce mixed results in their impact on company value. Several studies, including those by Hidayati & Priyadi (2022) suggest that investment decisions positively influence company value, highlighting the importance of strategic investments for enhancing long-term business success. However, research by Suteja et al. (2023) found a negative impact, indicating that poorly made investment decisions could harm a company’s value. Other studies, such as those by Bon & Hartoko (2022) and Akhyar et al. (2023), found no significant effect of investment decisions on company value, suggesting that investment decisions alone may not be decisive in determining company success. Audit quality is generally recognized for its positive role in enhancing company value and financial performance (Widyadi et al., 2023; Aji et al., 2023). However, some research, including studies by Saputra & Kubertein (2023), indicates that audit quality may not always significantly affect company performance, suggesting that other factors may play a more critical role in influencing outcomes.

The financial expertise of directors and commissioners is a key factor in influencing sustainable finance and company performance. Research has shown that the financial expertise of directors positively impacts both sustainable finance and company performance (Alshareef & Sulimany, 2024; Bazhair & Sulimany, 2023). However, some studies have found that the educational background of directors does not significantly affect financial performance (Jao et al., 2022; Mustahidda & Wahyono, 2022). This highlights the debate on whether the formal qualifications or the practical financial expertise of directors play a more crucial role in driving company success. This study aims to explore the relationship between credit growth, investment decisions, audit quality, and the financial expertise of directors in relation to sustainable finance in banks listed on the Indonesia Stock Exchange during the 2021-2023 period. By focusing on these variables, the study seeks to provide a deeper understanding of how they contribute to the sustainability of financial practices in the banking sector. The findings of this study are expected to offer valuable insights for the banking industry, helping them develop more effective and sustainable financial strategies. Understanding the factors that influence sustainable finance could guide banks in improving their governance and decision-making processes to align with sustainability goals. Ultimately, the study aims to contribute to the development of policies that foster long-term financial stability while supporting sustainable growth in the banking sector.

LITERATURE REVIEW

Agency theory explains the contractual relationship between the principal and the agent, where the principal authorizes the agent to carry out certain tasks, including making decisions on behalf of the principal (Jensen & Meckling, 2019). In this theory, the agent is expected to act in accordance with the interests of the principal (Rachman et al., 2024; Wahyuni et al., 2024). If both parties share the same goal, namely to maximize the value of the company, the agent is believed to act in line with the interests of the principal. However, in practice, differences in interests can arise, potentially leading to agency conflicts. To reduce this conflict, appropriate monitoring and incentive mechanisms are necessary to ensure that agents continue to act in the interests of the principal, thereby achieving the common goal of maximizing the company's value. According to Freeman (2010), stakeholder theory explains that companies do not operate solely for their own interests but must also provide benefits to stakeholders. Donaldson & Preston (1995) emphasized that this theory connects corporate governance with responsibility toward stakeholders. Spence's (1973) signaling theory involves two parties: the internal party (management), which sends the signal, and the external party (potential investors), which receives the signal. Investors can use the signals provided by management to obtain relevant information. Morris (1987) stated that signaling theory is particularly useful in addressing the issue of information asymmetry between companies and potential investors.

Sustainable finance is a contribution from the financial services sector in encouraging sustainable economic growth by balancing economic, social, and environmental aspects (OJK, 2017). Financial sustainability refers to an organization's ability to compare all costs with the income generated from the operational activities carried out. Sustainable finance is considered optimal if the Financial Sustainability Ratio (FSR) value exceeds 100%, which means that total income is higher than total expenses (Imhanzenobe, 2020). According to Law No. 10 of 1998 concerning Banking, credit is the provision of money or financial obligations based on an agreement or loan agreement between a bank and/or another party. This requires the borrower to repay the debt within a specified time, along with the interest charged. Banks that have higher credit growth tend to be more resilient and better able to withstand economic or financial instability (Liyanagamage, 2021).

Investment decisions involve allocating available funds into short-term or long-term assets, with the aim of generating profit in the future (Akhyar et al., 2023). The decision to invest capital in a proposed investment must be evaluated and adjusted based on the level of risk and expected return (Liu & Zhang, 2020; Baity et al., 2024). Audits must be conducted to ensure that financial statements are presented accurately and in accordance with generally accepted accounting principles. Widyadi & Widiatmoko (2023) stated that audit quality reflects the extent to which the accounting information presented by the auditor aligns with the truth. Directors and commissioners who are experts in finance are particularly helpful in facing various challenges in an ever-growing economy. In the agency framework, it is argued that directors who are financial experts are more effective in monitoring managers' actions due to their educational background and competence (Alcaide-Ruiz et al., 2023). It is believed that directors with expertise in finance can use their professional skills to reduce financial misrepresentation and earnings management practices (Ali et al., 2022).

Firm size refers to the size or scale of a company, as measured by various parameters such as total assets, log size, stock market capitalization, and other indicators. Company size indicates how quickly the level of business development is advancing within the company. Company age (firm age) refers to how long the company has been operating, from its founding until the research was conducted (Kartana et al., 2024). The age of the company can be determined by looking at the date of the company's establishment in the annual report, the initial listing date registered on the IDX page, or the date the company conducted an Initial Public Offering (IPO). Leverage measures how much a company relies on borrowed funds in its capital structure compared to funds from shareholders (equity) (Ramadanti et al., 2024). Excessive use of debt can put a corporation in a risky situation, as it may push the company into a very high leverage category, where it becomes trapped in a pile of debt that is difficult to pay off (Supriono, 2022; Syahputra, 2024).

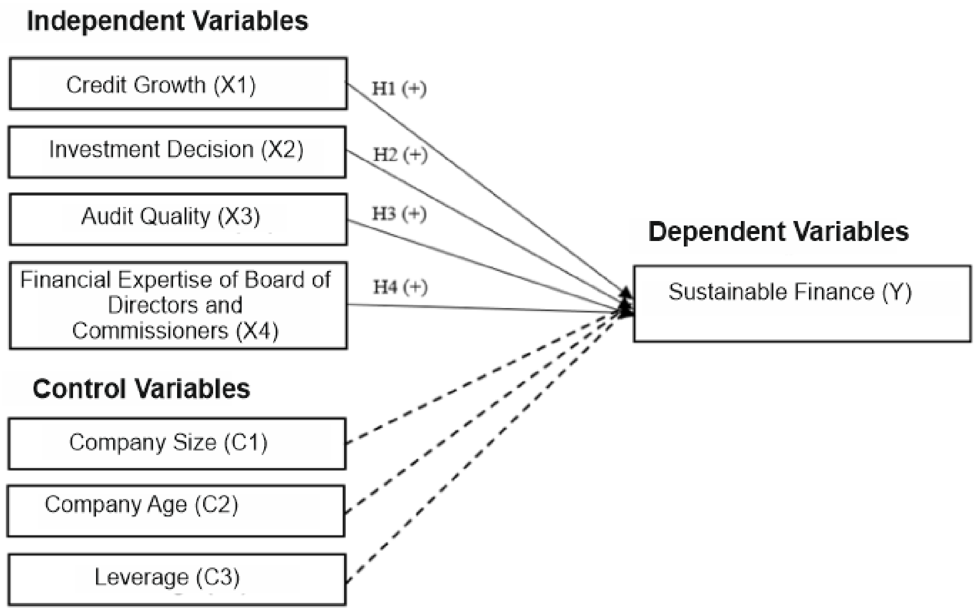

Figure 1. Hypostesis Framework

H1: Credit growth has a positive effect on sustainable finance.
H2: Investment decisions have a positive effect on sustainable finance.
H3: Audit quality has a positive effect on sustainable finance.
H4: Financial expertise of directors and commissioners has a positive effect on sustainable finance.

METHOD

This study uses quantitative analysis to identify the correlation between independent variables and the dependent variable, while considering control variables (Sugiyono, 2016). The independent variables include credit growth, investment decisions, audit quality, and the financial expertise of directors and commissioners. The dependent variable is sustainable finance, proxied by the Financial Sustainability Ratio (FSR), while the control variables include company size, company age, and leverage. The data for this study are sourced from the financial reports and annual reports of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023. The sample was selected using a purposive sampling method based on certain criteria relevant to the research objectives, with a total of 47 companies and 136 reports. The collected data were processed using the SPSS version 21 program to ensure accurate and reliable results. The analysis method applied is multiple regression to test the relationship between the independent and dependent variables, while considering the control variables. Several statistical tests were used in this study, including descriptive statistical analysis to describe data characteristics, classical assumption tests to ensure the feasibility of the regression model, and hypothesis testing to test the significance of the relationship between variables.

RESULT

The data used in this study were obtained from financial reports and annual or sustainability reports of banking sector companies listed on the Indonesia Stock Exchange for the period 2021-2023. There are 47 banking sector companies listed on the IDX that published financial reports and annual reports for this period. Over the 3-year period, the total sample consists of 141 observations. However, after identifying 5 outlier data points, the number of samples in this study is reduced to 136 observations. Descriptive statistics include the number of samples (N), minimum value (Min), maximum value (Max), average (Mean), and standard deviation (Std. Dev.). The multicollinearity test is presented as the VIF value, and the heteroscedasticity test is presented as the Sig. value for heteroscedasticity.

Table 1. Descriptive Statistical, Multicollinearity and Heteroscedasticity Tests Result

Variable	N	Min	Max	Mean	Std. Dev.	VIF	Sig.
FSR	136	22.65	176.56	112.4495	26.30571	-	-
CG	136	-100.00	534.44	19.9955	59.03519	2.061	0.957
TAG	136	-39.80	464.82	17.9396	48.32177	2.142	0.941
BFE	136	28.6	100.0	60.660	15.5161	1.239	0.204
FS	136	28.41	35.32	31.5468	1.65853	1.088	0.717
FA	136	0	128	49.39	24.373	1.821	0.653
LEV	136	0.04	15.31	4.5927	2.89748	1.284	0.865

The results of the FSR study have an average of 112.45 with a standard deviation of 26.31, which shows quite large variations. CG and TAG show high fluctuations, with standard deviations of 59.04 and 48.32, respectively. BFE has an average of 60.66 with a standard deviation of 15.52, while FS is more stable, with an average of 31.55 and a standard deviation of 1.66. FA varies between 0 and 128, with an average of 49.39 and a standard deviation of 24.37. LEV shows differences in capital structure, with an average of 4.59 and a standard deviation of 2.90. There are significant variations in several variables, especially FSR, CG, and TAG, which have high standard deviations. BFE and FS are more stable, while FA and LEV show large differences in fixed assets and capital structure. The results of the multicollinearity test show that the independent variables—namely credit growth, investment decisions, audit quality, and financial expertise of directors and commissioners—along with the control variables, such as company size, company age, and leverage, have a VIF value of less than 10.00, indicating that there is no multicollinearity. The results of the heteroscedasticity test show that the independent variables—namely credit growth, investment decisions, audit quality, and financial expertise of directors and commissioners—along with the control variables, such as company size, company age, and leverage, have a significance value from the Glejser heteroscedasticity test greater than 0.05, meaning that there is no heteroscedasticity.

Table 2. Audit Quality Frequency

Quality	Frequency	Percent
0 (Non Big Four)	66	48.5%
1 (Big Four)	70	51.5%
Total	136	100.0%

The research results in Table 2 show that 51.5% of banks were audited by Big Four KAP, while 48.5% were audited by Non-Big Four. This shows a tendency for banks to choose reputable auditors in order to increase the credibility of their financial reports. The variables for Sustainable Finance (FSR), Financial Expertise of Directors and Commissioners (BFE), Company Size (FS), Company Age (FA), and Leverage (LEV) have a standard deviation greater than the average, indicating that the data for these variables are homogeneous. In contrast, the Credit Growth (CG) and Investment Decision (TAG) variables have smaller standard deviations, indicating that the data are heterogeneous.

Table 3. Results of Normality, Autocorrelation, Determination Coefficient, F and T Test

Analysis	Value	Description
Asymp. Sig. (2-tailed)	0.108	Data is normally distributed
Durbin-Watson	1.144	No autocorrelation occurs
Adj. R Squared	0.305	-
Uji F (Sig.)	0.000	-
t	0.000	-

The results of the normality test show that the Asymp. Sig. (2-tailed) value is 0.108 > 0.05, which means that the data is normally distributed. The Durbin-Watson value of 1.144 is between -2 and +2 (-2 < 1.144 < +2), indicating that there is no autocorrelation. The results of the determination coefficient test show that the Adjusted R Square value of 0.305, or 30.5%, means that the variables of Credit Growth, Investment Decisions, Audit Quality, and Financial Expertise of Directors and Commissioners, controlled by Company Size, Company Age, and Leverage, can explain the Sustainable Finance variable by 30.5%. The remaining 69.5% is explained by other variables not included in this research model. The results of the F-test yielded a Sig. value of 0.000 < 0.05, meaning that the variables of Credit Growth, Investment Decisions, Audit Quality, and Financial Expertise of Directors and Commissioners have a joint effect on Sustainable Finance. The results of the t-test show that the Sig. value for the Credit Growth variable is 0.000 < 0.05, so H1 is accepted, meaning that Credit Growth has a positive effect on Sustainable Finance. The Sig. value for the Investment Decision variable is negative at 0.000 < 0.05, so H2 is rejected, meaning that Investment Decisions have no effect on Sustainable Finance. As for the variables of Audit Quality and Financial Expertise of Directors and Commissioners, their Sig. values are > 0.05, so H3 and H4 are rejected. This means that Audit Quality and Financial Expertise of Directors and Commissioners have no effect on Sustainable Finance.

Table 4. Hypothesis Test Results

Variables	Prediction	B	Sig. (one tailed)	Conclusion
(Constant)	-	-135.812	0.0015	-
CG	+	0.190	0.000	H1 accepted
TAG	+	-0.223	0.000	H2 rejected
AQ	+	-5.286	0.1045	H3 rejected
BFE	+	0.075	0.2785	H4 rejected
FS	-	8.058	0.000	-
FA	-	0.086	0.163	-
LEV	-	-2.573	0.001	-

The constant in the regression equation is -135.812 with a significance of 0.0015, which means it is significant. Corporate Governance (CG) has a significant positive effect on FSR, with a coefficient of 0.190 and a significance of 0.000, so H1 is accepted. Total Asset Growth (TAG) has a significant negative effect (B = -0.223, Sig. = 0.000), so H2 is rejected. Audit Quality (AQ) is not significant (B = -5.286, Sig. = 0.1045), so H3 is rejected. Business Financial Experience (BFE) also shows a coefficient of 0.075 and a significance of 0.2785, making H4 rejected. Firm Size (FS) and Leverage (LEV) have a significant effect on FSR, while Firm Age (FA) is not significant. Thus, only H1 is accepted, while H2, H3, and H4 are rejected.

DISCUSSION

The results of this study indicate that credit growth has a positive effect on sustainable finance. The greater the credit growth, the greater its contribution to achieving sustainable finance goals, such as financing the renewable energy sector and small and medium-sized enterprises. This finding supports the research of Le (2020) and Alwi & Fadil (2023), which show a positive effect of credit growth on bank stock prices and profitability. Credit growth allows banks to channel productive financing and increase interest income, which, in turn, increases the sustainable finance ratio. In addition, credit growth also reflects the bank's ability to expand its service reach, increase revenue diversification, and manage credit risk, which can maintain the stability and sustainability of bank finances in the long term.

The results of this study indicate that investment decisions, as measured by Total Asset Growth, have no effect on sustainable finance. This finding is in line with the results of previous studies which also concluded that investment decisions do not affect company value (Bon & Hartoko, 2022; Suteja et al., 2023; Akhyar et al., 2023). Although Total Asset Growth declined in banking sector companies during the 2021–2023 periods, the sustainable finance ratio tended to increase. Digital transformation and operational efficiency influenced the decline in Total Asset Growth. Banks in Indonesia have increasingly shifted to digital platforms and maximized the use of technology to expand their customer base without the need to increase physical assets such as branches and other infrastructure. Additionally, the increase in interest rates during the 2021–2023 period boosted bank interest income, while operational efficiency helped suppress expense growth. This combination of factors contributed to an increase in the sustainable finance ratio, even as asset growth slowed.

The results of this study are in line with previous studies which show that audit quality has no effect on sustainable finance (Saputra & Kubertein, 2023). Companies audited by Big Four KAP do not necessarily show better performance. These companies use Big Four KAP to enhance their image, as Big Four KAP is perceived to influence public opinion about the company's performance and increase its value. Similarly, banking companies audited by Big Four KAP do not guarantee a real commitment or practice in environmental, social, and governance (ESG) aspects. In the banking context, good audit quality may be more relevant to increasing stakeholder trust, but its effect on sustainable finance ratios is more indirect and takes longer to become apparent.

The results of this study indicate that the financial expertise of directors and commissioners does not affect sustainable finance. This is consistent with research by Jao et al. (2022) and Mustahidda & Wahyono (2022), which stated that the educational background of directors does not affect financial performance. The diversity of educational backgrounds held by the board of directors and commissioners is not the main factor determining the financial sustainability of a company. Current technological developments allow individuals to easily access information and learning through the internet, enabling anyone to acquire new skills independently. In addition, skills in managing a company are often more influenced by practical experience in the field, which is not always taught in formal education. Thus, the financial sustainability of a company depends more on the synergy between practical experience, effective operational strategies, and the ability to adapt to changes in the business environment, rather than solely on the expertise or formal educational background of the board of directors and commissioners.

CONCLUSION

The study concludes that credit growth positively influences sustainable finance, particularly in supporting the renewable energy sector and small and medium enterprises (SMEs). Credit growth enables banks to expand their services, diversify revenue streams, and sustain long-term financial stability. This growth facilitates financing opportunities that align with sustainability goals. However, investment decisions, as measured by Total Asset Growth, do not have a significant effect on sustainable finance, even though a decline in asset growth is observed. This suggests that asset growth is not a direct determinant of financial sustainability. Additionally, the study finds that audit quality and the financial expertise of directors and commissioners do not directly impact sustainable finance. While companies audited by Big Four accounting firms or with highly educated board members may garner greater trust, these factors influence sustainable finance indirectly. The research emphasizes that financial sustainability is primarily determined by the effective synergy between practical experience, operational strategies, and the ability of businesses to adapt to changes in the market environment. In other words, while external factors like audit quality and board education can play a role, the key drivers of sustainable finance lie in the internal capabilities of an organization, particularly its operational effectiveness and adaptability to evolving business conditions. This highlights the importance of a strategic and responsive approach to managing financial resources for long-term sustainability.

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