

Determining factors of sustainability report using the institutional isomorphism theory approach

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ABSTRACT

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One form of company participation in sustainable development is the preparation of quality reports (SR) taking into account SR content and pressure from stakeholders including the determinants of SR quality in companies listed on the IDX during 2017-2020 with an isomorphism theory approach. The sample for this study was 444 companies using the purposive method, with the criteria for companies compiling SRs during the year of observation either separately or in combination with the annual financial statements. Data analysis with multivariate regression. The results showed that environmental pressure and social pressure coercively isomorphism had an effect on SR quality, and industrial pressure had mimetic isomorphism affected SR quality, while normative pressure from the audit committee had no effect on SR quality because $p > 0.05$. This study proves that testing the quality of SR with a coercive, mimetic, and normative isomorphism theory approach can determine the quality of SR.

Introduction

Every company is required to prepare an annual financial report which contains not only financial information, but also non-financial information known as a social responsibility report, which was previously only for companies that use natural resources as stipulated in the Undang-Undang PT No. 40 Tahun 2007 (RI, 2007). These provisions are regulated again in Peraturan Pemerintah No. 47 Tahun 2012 (RI, 2012), regarding social responsibility for all Limited Liability Companies, then in 2017 the government strengthened social responsibility activities related to the implementation of sustainable finance issued by POJK No. 51/03/2017 in article 2 states that every company as a legal subject has social and environmental responsibility (TJSL), and article 3 contains CSR obligations for companies that carry out business activities in the field of and or related to natural resources to compile sustainability report (OJK RI, 2017).

Reporting on social and environmental responsibility activities, as well as implementing sustainable finance is the main agenda of the Indonesian government in realizing sustainable programs that follow UN provisions as stated in the 2015-2030 SDGs (Sustainable Development Goals). The post-MDGs (Millennium Development Goals) world agenda has influenced the Indonesian government to pay attention to sustainable development by compiling a sustainable development roadmap that contains the Indonesian government's strategic plans for development programs (Bappenas, 2019). The concept of non-decreasing well-being ensures that inter-generational well-being does not decrease, at least stays the same, or even increases. The implementation of this concept is carried out by the government by preparing a Medium-Term Development Plan (RPJM) by taking into account the 4P (*pro-growth, pro-job, pro-poor and pro-environment*) so that a sustainable development plan is no longer an option but a necessity because a sustainable development plan includes aspects social, economic, environmental and institutional.

The running of sustainable development requires support from various parties, communities, individuals, organizations, the private sector, and companies. The government has issued a policy, namely POJK No.51/03/2017, which requires companies to issue a broader accountability report known as a sustainability report. Although the enactment of these provisions is not the same, namely Financial Services Institutions (FSI) starting in 2019 and issuers and public companies starting in 2020. However, at least companies listed on the IDX have begun to prepare to compile SR. The preparation of sustainability reports can be done separately from the annual financial statements or as a part that is not separate from the annual report.

Although the SR provisions have been issued, until now there are still many companies that compile CSR reports that are interpreted the same as compiling SR, so in testing the quality of this SR, it also contains CSR reports. Previous studies used SR quality data with CSR and SR reports because SR itself is defined as a report that reveals economic, social, and environmental performance that can be done separately or combined with annual financial statements (Badia et al., 2020). Conditions in Indonesia are not much different from conditions abroad, because there are CSR reports by companies that are also interpreted as SR, even though CSR has informed about economic, social and environmental activities (Hamdani et al., 2020), but to be categorized in SR has not fulfilled these provisions, as stated about sustainability plans or stakeholder involvement so that there are gaps in SR quality that need to be investigated.

The preparation of SR cannot be separated from attention to the guidelines and content, one of which is by using the GRI guidelines, because until now the companies that compile the SR still have problems in content, such as still symbolic (Nasution & Adhariani, 2016) and lack of attention to the needs of stakeholders (Fernandez-Feijoo et al., 2014; Rudyanto & Siregar, 2018) including the need to pay attention to governance such as an audit committee that can guarantee the quality of SR (Adaui, 2020). Of course, compiling an SR requires more attention in determining the content, which cannot be separated from the guidelines used, such as the GRI guide which already provides a template for compiling SR.

The preparation of SR in Indonesia is still relatively small because until now only 38 companies have compiled SR in a row from 2016-2019 on IDX companies (Qisthi & Fitri, 2020). The low response rate can be due to the low readability of the SR report (Adhariani & du Toit, 2020) and the low understanding of the SR guidance (Dissanayake et al. 2020) including a lack of attention to the involvement of stakeholders (Rudyanto & Siregar, 2018) both internally (Fernandez-Feijoo et al., 2014) and externally (Lulu, 2020). In addition, content from SR that contains information about the economy, society, and environment (Manning et al., 2019; Torelli et al., 2020) indispensable. Similarly, information on governance with the ownership of audit committees (Correa-Garcia et al., 2020) can affect the quality of SR.

This study examines the determinants of SR quality using an institutional theory of isomorphism approach because the institutional theory of isomorphism explains the interaction of organizations with institutional dynamics, the influence of social expectations on organizations, and the incorporation of expectations into organizational culture and practice (Dillard & Anderson, 2004). This study uses the results of the incorporation of elements or institutionalization as sustainability reporting following previous studies (Amran & Haniffa, 2011) using institutional coercive, mimetic, and normative isomorphism. The theory of coercive isomorphism is a theory that explains the involvement of organizations to change institutional practice as a result of formal and informal pressures by using social performance disclosure variables; disclosure of environmental performance; and majority shareholder pressure variables (Rudyanto & Siregar, 2018; Fernandez-Feijoo et al., 2014).

The approach of the theory of mimetic isomorphism deals with environmental uncertainty, in this case, the use of industrial pressure variables (Fernandez-Feijoo et al., 2014). The normative theory of isomorphism is used to explain the pressures arising from group norms to adopt an institutional practice or to meet professional expectations (DiMaggio & Powell, 1983). Professional is defined as the collective struggle of members of a job to determine the conditions and methods of practice and to establish cognitive bases such as education and professional networks. The audit committee variables in this study use a normative isomorphism approach, following the study Vadasi et al. (2020) which says the identity of the audit profession determines the rules of conduct and brings homogeneity to professional organizations, the stronger the normative power of the organization the more effective (Lenz et al., 2018). However, the reality is that audit committees cannot always be used to guarantee quality SRs (Adaui, 2020; Michelon et al., 2015) so what about the quality of SRs in Indonesia? whether the audit committee can improve the quality of SR or not? Therefore, one of the aims of this study is to prove this.

Some of the gaps above indicate that the quality of SR in Indonesia still needs to be proven, is it true that the pressure of isomorphism from disclosing economic performance, and disclosing social performance as well as pressure from majority shareholders can affect the quality of SR? can industrial pressure by mimetic isomorphism affect SR quality, then is it true that a company that has an audit committee can guarantee SR quality?

Literature Review

Theory Isomorphism

This study uses an isomorphism theory approach in testing the quality of SR because this study is related to the success and sustainability of the company (Meyer & Rowan, 1977). The institutional theory approach of isomorphism is very appropriate in testing the quality of SR because it has a conformity between values and social norms, as well as stakeholder pressures that are essential to society and legitimacy (Dias & Basuki, 2018; Evana, 2017) who explained that companies tend to follow from a homogeneous community so that it will influence in making decisions both coercively (coercion), normatively, and mimetically (imitating) in compiling SR.

Social Performance Disclosures

The concept of corporate social responsibility is present as a response to concerns about the sustainability issues of an organization. Social responsibility is a set of policies, programs, and other initiatives aimed at providing welfare for the society and environment. Social performance is a performance that shows the company's achievements about the company's concern for social problems (Zahid et al., 2020) because it includes normative aspects that pay attention to stakeholders and moral obligations that will eventually benefit from these obligations (Bansal & DesJardine, 2014). Companies pay attention to social performance including employee training and the development of collective competencies and a strong culture capable of influencing the quality of SR (Baldini et al., 2018; Busch & Friede, 2018; Rehman et al., 2020; Venturelli et al., 2019; Zahid et al., 2020). The company reveals social performance through the mechanism of coercive isomorphism affecting the quality of SR.

H1: Disclosure of social performance has a positive effect on the quality of SR.

Environmental Performance Disclosures

Companies need to pay attention to concern for environmental impact management which is realized by disclosing environmental performance. According to Choi et al. (2018), disclosure of environmental performance shows a company's concern for the company's environmental risks. Environmental performance measurement uses the GRI index on environmental dimensions. According to Del Giudice and Rigamonti (2020) investors need a corporate assessment of the social environment and governance and oversight so that environmental performance becomes important. Environmental rating agencies analyze relevant information in assessing environmental, social, and governance quality making the results of their analysis available to investors and other stakeholders (Landi & Sciarelli, 2019). Several studies that tested environmental performance variables had a positive effect on the SR report conducted by Adai (2020); Del Giudice and Rigamonti (2020); Venturelli et al. (2017); Venturelli et al. (2019). The results of these studies concluded that environmental performance variables have a positive effect on SR. In compiling a sustainable report by revealing environmental performance that coercively isomorphism affect quality SR.

H2: Disclosure of environmental performance has a positive effect on SR quality.

Majority shareholder pressure

Stakeholder pressure in the form of majority shareholders is the large number of shares owned by the majority shareholder (Rudyanto & Siregar, 2018). Through the general meeting of shareholders, the majority shareholder has the power to determine to vote for the sustainability of the company (Sjåfjell, 2016). Several studies have previously tested majority shareholder pressure on SR, namely Chen et al. (2022) testing on Chinese companies and Fernandez-Feijoo et al. (2014) testing SR in the US, Netherlands, Japan, and Brazil. The reason why majority shareholder pressure affects the quality of SR is that majority shareholders want information about sustainability that coercively isomorphism can affect the quality of SR.

H3: Majority shareholder pressure has a positive effect on SR Quality.

Audit Committee

Companies in preparing SRs need to pay attention to governance as a reference for management, one of which is by having an audit committee tasked with ensuring financial reports including sustainability reports. Sustainability reports guaranteed by the audit committee can show credibility by analyzing content, and communicating with stakeholders (Adai, 2020). The audit committee is one of the corporate governance mechanisms to improve board oversight, improve the quality of financial reports, and reduce information asymmetry. In addition, the audit committee can also improve auditor performance, be independent and objective, and can reduce risk and assist in decision making including in preparing sustainability reports (Buallay & Al-Ajmi, 2020). The audit committee acts as a guarantor with internal report validation (Hasan et al., 2020). Several previous studies have tested audit committee variables that affect SR quality (Correa-Garcia et al. 2020; Kuzey & Uyar, 2017). The reason the audit committee is influential in presenting SR is because the audit committee pays attention to standards and norms. The audit committee works according to the rules and norms in ensuring the preparation of SR, in normative isomorphism the audit committee maintains professionalism which affects the quality of SR.

H4: The audit committee has a positive effect on the quality of SR.

Environmentally sensitive industrial pressures

The environment is also a concern for the community, government, and environmental institutions as company stakeholders. According to Rudyanto and Siregar (2018), industrial pressure from environmental groups such as Greenpeace and society, in general, can influence companies to care about the environment. Environmentally

sensitive companies are more likely to seek to inform the environment in addition to gaining legitimacy in the company's operations. The more environmentally sensitive the higher the importance of sustainability reports (Gamerschlag et al., 2011). Several past studies testing environmentally sensitive industrial pressures affecting SR were conducted by (Baldini et al., 2018; Chen et al., 2022; Fernandez-Feijoo et al., 2014; Rudyanto & Siregar, 2018; Tang et al. 2020). The results of the study show that environmentally sensitive industrial pressures affect SR because companies have difficulty understanding the guidelines and experience uncertainty so that in mimetic isomorphism, companies imitate other companies in the preparation of SR.

H5: Environmentally sensitive industrial pressure positively affects SR quality.

The theoretical framework is as follows:

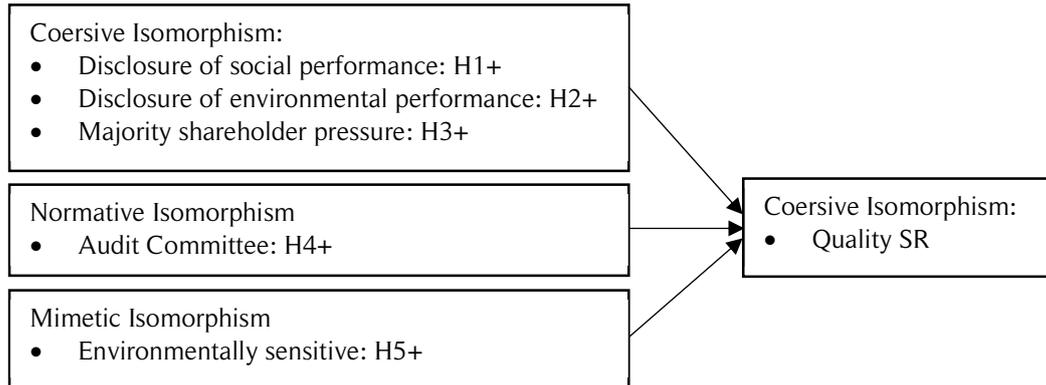


Figure 1. Research Framework

Research Method

This study uses a sample of companies listed on the IDX, namely companies that compile SR including companies that compile CSR reports both separately and incorporated with annual financial statements. A total of 444 companies were observed from SR data and CSR reports as well as annual financial statements from 2017 to 2020. The method of determining samples by purposive sampling, namely with the following conditions: 1) The company is listed on the IDX in 2017 – 2020; 2) The Company prepares annual financial statements consecutively for at least 2 years; 3) The Company provides information about CSR or SR either separately (presented in its sustainability report) or incorporated with the annual financial statements and 4) the Company uses GRI guidelines in preparing CSR/SR.

Variable Measurement

Quality sustainability reporting

Quality Sustainability Reporting (SR) is an SR or CSR report from content analysis that informs economic, environmental and social issues including product responsibility information based on the Global Reporting Initiative (GRI) guidelines (Rudyanto & Siregar, 2018). The Global Reporting Initiative standard is the most well-known and widespread reference reporting standard used by companies both in Indonesia and abroad. The SR quality measurement uses the GRI index by scoring 1 if there is information related to SR, and 0 if there is none, then adding up the total SR disclosure divided by the total SR items that should be according to GRI. There are 91 SR items in total according to the GRI.

$$\text{Quality SR index} = \frac{q}{\sum n_{\text{SR}}}$$

Environmental performance disclosure

According to Del Giudice and Rigamonti (2020), investors need a corporate assessment of the social environment and governance and oversight so that environmental performance becomes important. Environmental rating agencies analyze relevant information in assessing environmental, social, and governance quality making the results of their analysis available to investors and other stakeholders (Landi & Sciarelli, 2019). Several studies that tested environmental performance variables had a positive effect on the SR report conducted by Adai (2020); Del Giudice and Rigamonti (2020); Venturelli et al. (2017); Venturelli et al. (2019). The results of these studies concluded that environmental performance variables have a positive effect on SR. In compiling a sustainable report by revealing environmental performance that coercively isomorphism affect quality SR, the formulation of hypothesis:

H2: Disclosure of environmental performance has a positive effect on SR quality.

$$\text{Environmental performance index} = \frac{e}{\sum n_{\text{Env}}}$$

Disclosure of Social Performance

Disclosure of corporate social responsibility is presented as a response to concerns about corporate sustainability issues (Adau, 2020). Social responsibility is a set of policies, programs and other initiatives that aim to provide welfare for society and the environment but do not ignore the main objectives of the entity itself. Social performance measurement uses SR items according to the GRI guidelines, especially on the social dimension, by scoring 1 if there is social disclosure, and a score of 0 if there is not, then all social performance disclosures are summed and divided by all social dimensions according to GRI. Total social disclosure according to GRI 10 items. Disclosure of social performance index= $s/\sum n_{Soc}$

Majority shareholder pressure

Shareholders as stakeholders use measurements from the Rudyanto and Siregar (2018) study which is the concentration level of ownership structure. Majority shareholders are measured by comparing the number of shares held by the parent company with the total shares outstanding.

$$\sum \frac{\text{Number of Majority Shares}}{\text{Total outstanding shares}}$$

Audit Committee

The audit committee is one of corporate governance to improve board oversight, improve the quality of financial reports, and can reduce information asymmetry, improve auditor performance, be independent and objective and can reduce risk, and assist in decision making including in the preparation of sustainability reports (Buallay & Al - Ajmi, 2020). The measurement of the audit committee is by calculating a score of 1 if the company has an audit committee and 0 if it does not. The audit committee functions as a guarantee for SR by validating reports.

Environmentally sensitive industrial pressures

Industrial pressure is environmentally sensitive as pressure from external parties from both the community and groups that care about the environment, including the government regarding the company's concern for the environment (Rudyanto & Siregar, 2018). The measurement of industrial pressure is environmentally sensitive by looking at if the company is sensitive to environmental risks with a score of 1 and a score of 0 if not. The environmentally sensitive industrial sectors according to the study of Fernandez-Feijoo et al. (2014) are agriculture, automotive, aviation, chemical, construction, construction materials, energy, energy utilities, forest and paper products, logistics, metal products, mining, railways, waste management, and water utilities.

Results and Discussion

Based on descriptive statistical data, it shows the number of company data that can be processed in many 444 companies consisting of 11 sectors. The descriptive statistics to find out the average (standard deviation) of each variable can be seen in Table 1.

Table 1. Descriptive Statistic, n = 444

Variable	Minimum	Maximum	Mean	Std. Dev
SR Quality	0.000	1.000	0.261	0.162
Environmental Performance Disclosures	0.000	1.000	0.251	0.194
Social Performance Disclosures	0.000	1.000	0.258	0.223
Majority Shareholder Pressure	12.000	99.750	68.309	19.542
Audit Committee	0.000	1.000	0.507	0.500
Environmentally sensitive industrial pressures	0.000	1.000	0.363	0.481

Table 1 shows that the SR quality of companies in Indonesia is still not compliant in presenting environmental and social information, which shows almost the same average values, namely 0.26 and 0.25. Still, around 75% of the SR quality is compiled from a sample of companies. Likewise, the average audit committee is 0.507, which means that almost 50% of public companies still do not have an audit committee. This means that many companies do not have a guarantee to carry out SR validation. Majority shareholder pressure has a low average of 68.308, which means 68% of the average majority share is owned by the company. Meanwhile, industrial pressure shows an average of 0.363, which means that 36% of companies have environmentally sensitive industrial pressure.

Hypothesis Test

This study was tested using Multiple Regression analysis and hypothesis test with a 5% significance t-test, with results that can be shown in Table 2.

Table 2. Hypothesis Test

Variable	Coefficient		t	Sig	Information
	B	St. Error			
Constant	0.06062	0.00859	7.05271	0.000	
Environmental Performance Disclosures	0.45103	0.01245	36.09299	0.000***	H1: Supported
Social Performance Disclosures	0.29705	0.01078	27.53189	0.000***	H2: Supported
Majority Shareholder Pressure	-0.00007	0.00011	-0.63138	0.528	H3: Not Supported
Audit Committee	0.00566	0.00424	1.33345	0.183	H4: Not Supported
Environmental sensitive industry pressures	0.03149	0.00445	7.35998	0.000***	H5: Supported

Test F= 825.73; Sig. 0.000; Adjusted R² = 0.699

Information: *** Significant at 1%; ** Significant at 5%; * Significant at 10%

Based on hypothesis testing (Table 2) shows the disclosure of environmental and social performance shows a significance value of 0,000. This means that disclosure of environmental and social performance can improve the quality of SR (Adaui, 2020). Following the studies that Adaui (2020); Del Giudice and Rigamonti (2020); Michelin et al. (2019); Venturelli et al. (2017) proved that companies that disclose environmental performance in a coercive isomorphism affect the quality of SR. Similarly, the disclosure of social performance that can affect the quality of SR is in line with previous studies conducted by Baldini et al. (2018); Busch and Friede (2018); Rehman et al. (2020); Venturelli et al. (2019) means that companies that inform about social activities in a coercive isomorphism can improve the quality of SR.

The results of the audit committee test show a significance of 0.1836 > 5%, which means that the audit committee in IDX companies does not affect the quality of SR. This is not in line with Adaui (2020) which states that the audit committee can guarantee the quality of SR, because there are still many sample companies that do not yet have an audit committee, so there is no guarantee for SR and no one validates it. This study is by following in order the study of Michelin et al. (2015) which explains that even though a company has an audit committee, if the company does not pay attention to SR content or the principle of materiality, then the audit committee has less role in improving SR quality. This study shows that the audit committee has worked independently and maintains professionalism, but if the company does not pay attention to the content and materiality of SR, then the lack of normative isomorphism of the audit committee is not able to increase the quality of SR.

The results of the majority shareholder pressure test show a significance of 0.542 > 5% meaning that the majority shareholder pressure is not able to affect the quality of SR. The study results do not support previous studies (Chen et al., 2022; Fernandez-Feijoo et al., 2014; Rudyanto & Siregar, 2018). Although the majority shareholder can influence the company's strategy, the preparation of SR is not proven, even reducing quality, so it is still possible that the majority shareholder still wants high profits and is reluctant to support the company in informing about SR.

The test results of environmentally sensitive industrial pressures show a t value of 7.359 with a significance of 0.000 which means that environmentally sensitive industrial pressures can influence companies to disclose quality SR. Although companies experience uncertainty and lack of clarity about SR guidelines, mimetic isomorphism companies can imitate other successful companies according to their type of industry. This study supports previous studies that prove that companies that have environmental risks tend to have more quality SR because companies maintain public image and trust Fernandez-Feijoo et al. (2014); Rudyanto and Siregar (2018); Tang et al. (2020); Baldini et al. (2018).

An Adjusted R Square value of 0,699 means that 69,99% of SR quality is affected by environmental performance disclosures, social performance disclosures, audit committee ownership, majority shareholder pressure, and environmentally sensitive industry pressures, and the remaining 30,01% is influenced by other variables not present in the model. As for the equation model

$$\text{SR Quality} = 0,06062 + 0,45103 X_1 + 0,29705 X_2 + 0,00566 X_3 - 0,00007 X_4 + 0,03267 X_5 + \epsilon$$

Conclusion

This research succeeded in proving that regulations issued by the government against companies to prepare sustainability reports are increasing in both developed and developing countries (Costa, 2014; Khan, et al., 2020). Likewise with government policies in Indonesia regarding the preparation of sustainability reports, namely POJK No. 51/03/2017 which has proven to be efficient in motivating companies to prepare sustainability reports. The

results of the study prove partially that disclosure of environmental and social performance can affect the quality of SR, coercive isomorphism of environmental and social regulations can influence companies to develop SR. as well as from industrial pressures that are sensitive to the environment which can increase company compliance to prepare quality SRs, even though the mimetic isomorphism of companies in preparing SRs still imitates other companies, the SRs are of high quality. While the ownership of the audit committee is apparently not able to influence the quality of SR, even though the audit committee is normatively isomorphism has worked professionally and is based on applicable norms and independently, if it does not pay attention to the contents of SR, it will not improve the quality of SR

The pressure of the majority shareholder is not able to affect the quality of SR, it can even reduce the quality of SR. Empirically it proves that shareholders still want high profits so they do not want the company in preparing SR to reduce their rights in the dividend distribution. This needs to be understood again by shareholders to be more supportive of company compliance with regulations, one of which is the preparation of quality SR

This study contributes theoretically that the isomorphism theory approach can explain the motivations of actors or subjects in determining the quality of SR which coercively isomorphism can influence companies to compile SR, this is a consideration for companies to pay attention to the role of companies in supporting government programs. In addition, the disclosure of information on environmental and social performance has proven to be useful in providing SR content information so that coercive isomorphism of SR disclosure can be further intensified to companies so that the preparation of future SR is of higher quality and better able to encourage sustainable development programs. This includes the pressure of environmentally sensitive industries that prove that attention to environmental impacts can respond so that companies consider the risks that may occur from environmental pollution so that the company remains sustainable.

Empirically, this study can explain that companies pay more attention to government regulations so that the preparation of SR can be used as a motivation for companies to accelerate sustainable development. This study has limitations with the GRI test which does not look at the differences in the themes determined from the GRI which might be able to explain in more detail the quality of the SR. For future studies, researchers should focus more on testing the SR separately so that they know the level of compliance with government regulations.

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