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Determinants of Sustainability Reporting in Indonesian Public Companies: Stakeholder and Legitimacy Theory Approach

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ABSTRACT: This study aims to analyse the determinants of sustainability reporting in public companies in Indonesia using the Stakeholder Theory and Legitimacy Theory approaches. Sustainability reporting is an important indicator in measuring corporate social and environmental responsibility, as well as a means of building legitimacy in the eyes of the public. This study uses a quantitative approach with secondary data taken from annual reports and sustainability reports of companies listed on the Indonesia Stock Exchange (IDX) during the period 2020-2023. The independent variables analysed include institutional ownership, company size, profitability, and independent board of directors. The analysis method used is logistic regression to test the influence of these variables on sustainability reporting disclosure. The results show that company size and institutional ownership have a significant influence on the existence of sustainability reports, supporting the assumption of stakeholder theory that large companies are more exposed to external pressures. Meanwhile, the influence of legitimacy is reflected through the role of an independent board that strengthens the company's transparency and accountability to the public. These findings provide theoretical and practical contributions in strengthening sustainability reporting practices in Indonesia as well as providing input for regulators and stakeholders in formulating sustainability reporting.

KEYWORDS: sustainability reporting, stakeholder theory, legitimacy theory, Indonesian public companies, sustainability disclosure

INTRODUCTION

Sustainability reporting is becoming increasingly important as society's expectations of corporate social and environmental accountability increase. Sustainability reporting is not only a form of non-financial reporting, but also a strategic communication tool between companies and stakeholders (Kolk, 2010). At the global level, standards such as GRI (Global Reporting Initiative) and the ESG (Environmental, Social, Governance) framework are the main references in measuring sustainability performance.

In Indonesia, the Financial Services Authority (OJK) through POJK No. 51/POJK.03/2017 has required financial services institutions, issuers, and certain public companies to submit sustainability reports. However, the implementation is still not optimal and tends to be a formality (Yuliana & Wijaya, 2021). Variations in the level of disclosure between companies indicat e differences in internal characteristics that influence sustainability reporting practices.

Several previous studies mention that company size, profitability, leverage, institutional ownership, and industry type are factors that can affect the quality and completeness of sustainability reports (Hermawan et al., 2021; Haryono & Isgiyarta, 2018). However, empirical results still show inconsistencies, which indicates the need for further studies with a strong theoretical approach.

In this context, two main theories are used, namely Stakeholder Theory and Legitimacy Theory. Stakeholder Theory states that companies must account for the impact of their operations to all parties involved (Freeman, 1984). Meanwhile, Legitimacy Theory explains that companies will prepare sustainability reporting as a response to social pressure in order to maintain their image and legitimacy (Suchman, 1995).

Therefore, this study is important to identify internal corporate factors that influence sustainability reporting by empirically testing the relationship between these variables in the Indonesian capital market environment.

Stakeholder Theory

Stakeholder Theory was developed by Freeman (1984) and states that companies are not only responsible to shareholders, but also to all stakeholders such as employees, customers, government, society, and the environment. According to this theory, the long-term success of the company depends on its ability to meet the expectations of these stakeholders, including in social and environmental aspects. 'The very purpose of the firm is to serve as a vehicle for coordinating stakeholder interests' - Freeman (1984).

In the context of sustainability reporting, this theory explains that the higher the expectations of stakeholders, the greater the impetus for companies to convey sustainability information transparently.

Legitimacy Theory

Legitimacy Theory explains that organisations strive to operate within socially acceptable limits and norms (Suchman, 1995). Companies will conduct sustainability reporting as a form of response to social pressure or as an effort to maintain legitimacy from society.

Legitimacy can be considered an 'intangible resource' that companies need to survive in the long term. Disclosure of ESG information through sustainability reporting is a strategic means to maintain such legitimacy (Deegan, 2002).

Previous Research

No	Researcher	Research Variable	Findings
1	Hermawan et al. (2021)	Company size, Profitability, Leverage, institutional ownership, sustainability Reporting	Company size and Profitability have a significant effect on Sustainability Reporting
2	Haryono & Isgiyarta (2018)	Legitimacy, stakeholder, industrial type, Sustainability Report	Legitimacy theory explains the encouragement of stronger reporting is in the ESG Industry
3	Kılıç et al. (2015)	Company Size, industry type, governance, Sustainability Report	Company size and industry Type have a significant Effect on Sustainability reporting.
4	Yuliana & Wijaya (2021)	ROA, DER, CSR Index, ESG Index	Profitable company are more transparent in Sustainability reporting
5	Haniffa & Cooke (2005)	Instutional Ownership, company size, legitimacy, Sustainability Report	Institutional ownership and company Size have a effect on Sustainability Reporting.

Framework of Thought

This research is based on the assumption that sustainability reporting is influenced by various internal factors that can be explained using Stakeholder Theory and Legitimacy Theory. Companies that are larger, more profitable, and in Big industries that have high social or environmental impacts, are more likely to conduct more complete sustainability reporting.

Factors that are Suspected of Influencing Sustainability Reporting:

1. Company Size: Large companies are more exposed to the public and stakeholders, so they are more encouraged to disclose sustainability information.
2. Profitability (ROA): More profitable companies tend to have more resources to prepare sustainability reports.
3. Leverage (DER): High levels of debt can influence management's disclosure decisions.
4. Institutional Ownership: Institutional investors often demand more transparency and accountability.
5. Industry Type: Companies in sectors with higher environmental risks tend to have better sustainability reporting.

Research Hypothesis

Based on theory and the results of previous research, the hypotheses in this study are:

H1: Company size has a positive effect on sustainability reporting. H2: Profitability has a positive effect on sustainability reporting.

H3: Leverage has a negative effect on sustainability reporting.

H4: Institutional ownership has a positive effect on sustainability reporting. H5: Industry type has an effect on sustainability reporting.

METHOD

Type and Research Approach

This research is a quantitative research with an associative approach. The aim is to analyse the relationship between the independent variables (company size, profitability, leverage, institutional ownership, and industry type) on the dependent variable, namely the level of sustainability reporting disclosure. The data analysis technique is performed statistically to test the hypothesis using the panel data regression model.

Population and Research Sample Population

The population in this study are all non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period, which have published annual reports and/or sustainability reporting.

Sampling Technique

The technique used is purposive sampling with criteria:

1. The company does not belong to the financial sector (banks, insurance, etc.).
2. Publish annual reports and sustainability reports consistently during 2019-2023.
3. Have complete data for the required variables (ROA, total assets, DER, and institutional ownership).

Types and Sources of Data

The type of data used is secondary data obtained from:

1. Annual report
2. Sustainability Report
3. IDX official website (www.idx.co.id)
4. Official websites of public companies

Operational Definition of Variables

No	Variable	Operational Definition	Indicator
1	Sustainability Reporting	Level of sustainability disclosure based on the GRI Index	Number of GRI Indicators disclosed ÷ Total GRI Indicators
2	Company Size	Company size as seen from total assets	Ln (Total Assets)
3	Profitability (ROA)	The company's ability to generate profits from its assets	ROA = Net Profit ÷ Total Assets
4	Leverage (DER)	Debt to equity ratio	DER = Total Liabilities ÷ Equity

5	Institutional Ownership	Proportion of shares owned by institutions	(Institutional shares ÷ Total Shares) x 100%
6	Industry Type	Industry category (1 = environmentally sensitive industry, 0 = other)	Dummy Variable

Data Analysis Technique

Descriptive Statistics

Used to describe data characteristics such as minimum, maximum, average, and standard deviation values of each variable.

Classical Assumption Test

Includes:

1. Normality test
2. Multicollinearity test
3. Heteroscedasticity test
4. Autocorrelation test

Panel Regression Model

This study uses panel data regression because it involves data across companies and time series data. The tests carried out include:

1. Chow Test (to choose Common Effect vs Fixed Effect)
2. Hausman Test (to choose Fixed Effect vs Random Effect)

Regression Model

The regression model you have written down is a multiple linear regression model used to analyse the effect of several independent variables on the dependent variable. In this context, the model can be explained as follows:

Regression Model:

$$SR_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 ROA_{it} + \beta_3 DER_{it} + \beta_4 INST_{it} + \beta_5 IND_{it} + \varepsilon_{it}$$

Variable Explanation:

1. SR {it}: Sustainability Report or sustainability disclosure value of company i in period t. This is the dependent variable.
2. α\alpha: The intercept or constant of the regression model.
3. β1\beta_1 to β5\beta_5: Regression coefficients that measure the influence of each independent variable on SR{it}.
4. SIZE{it}: Firm size, usually measured by the natural logarithm of total assets.
5. ROA{it}: Return on Assets, the profitability ratio of the firm.
6. DER{it}: Debt to Equity Ratio, a proxy for the capital structure or leverage of the firm.
7. INST{it}: Institutional ownership, can be in the form of percentage of shares owned by institutional investors.
8. IND{it}: Independent board composition, generally measured by the proportion of independent commissioners to the total board of commissioners.
9. Varepsilon({it}: Error term, capturing other variables that are not included in the model but affect SRitSR_{it}.

Empirical Characteristics of Regression Models: This model is:

1. Empirical, as it is built on real firm data (panel data: i for firm, t for time).
2. Systematic and logical, as it follows the formal structure of classical linear regression.
3. Relevant and theory-based, as the independent variables used have been frequently associated with sustainability disclosure practices in previous literature.
4. Focused, as it is directed to address the influence of internal factors on sustainability report disclosure.

Hypothesis Testing

Hypothesis testing is done by:

1. T-test to determine the effect of each independent variable on the dependent variable partially.
2. F-test to test the effect of all independent variables simultaneously.
3. Coefficient of Determination (R^2) to determine how much variation the independent variable has in explaining the dependent variable.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics are used to provide an overview of the characteristics of the data used in this study. The following table presents the minimum, maximum, average (mean), and standard deviation values of each variable studied. These statistics help in understanding the distribution of data and provide initial information about the general trend of variables such as company size, profitability, institutional ownership, independent board of directors, and the level of disclosure of sustaina bility reporting. The minimum and maximum values indicate the range of variation of the data, while the mean value gives an indication of the centralisation of the data, and the standard deviation indicates the level of dispersion or spread of the data from its mean value. This analysis is important to identify possible outliers and as a basis for further testing using inferential analysis.

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Company Size (SIZE)	120	25.12	33.45	29.78	1.85
Profitability (ROA)	120	0.02	0.35	0.102	0.065
Institutional Ownership	120	0.10	0.95	0.614	0.201
Independent Board (%)	120	25.00	60.00	41.33	8.74
Sustainability Reporting (SR)	120	0.00	1.00	0.58	0.496

Interpretation

1. **Company Size**

Company size has a minimum value of 25.12 and a maximum of 33.45, with an average of 29.78 and a standard deviation of 1.85. This shows that companies in the sample have a fairly high variation in size, but tend to be centred around the numbers 29-30. The logarithmic scale used reflects the size of the company's assets, where the majority are classified as large companies.

2. **Profitability (ROA)**

ROA shows a range from 0.02 to 0.35, with an average of 0.102 and a standard deviation of 0.065. This value indicates that the level of profitability is relatively low but stable, reflecting the efficiency of the company in generating profits from its assets.

3. **Institutional Ownership**

Institutional ownership is in the range of 10% to 95%, with an average of 61.4% and a standard deviation of 0.201. This indicates the dominance of institutional ownership in the shareholder structure, which could theoretically increase the effectiveness of corporate oversight.

4. **Independent Board of Commissioners**

The proportion of independent board of commissioners ranges from 25% to 60%, with an average of 41.33% and a deviation of 8.74. This average indicates that most companies have met the minimum requirements suggested by regulators to maintain objectivity and good governance.

5. **Sustainability Reporting (SR)**

The level of sustainability report disclosure is a dummy variable, with a minimum value of 0 and a maximum of 1. The average of 0.58 indicates that around 58% of companies in the sample have carried out sustainability reporting, while the rest have not. The standard deviation of 0.496 is close to the maximum (0.5), indicating a nearly balanced distribution between companies that report and those that do not.

Classical Assumption Test Normality Test

The Kolmogorov-Smirnov test shows a significance value > 0.05, so the data is normally distributed.

Multicollinearity Test

The Variance Inflation Factor (VIF) value of all variables is <10 and Tolerance> 0.1, meaning that there is no multicollinearity.

Heteroscedasticity Test

The Glejser test shows no heteroscedasticity because the significance value of each variable is > 0.05.

Autocorrelation Test

Durbin-Watson approaches 2, indicating no autocorrelation.

Panel Regression Analysis Results

Before running the panel regression, the following model selection tests were carried out:

1. Chow Test: Significant results → Fixed Effect model is selected.

2. Hausman Test: Significant results → Fixed Effect is more appropriate than Random Effect.

Panel Regression Test Results (Fixed Effect Model)

The following is a summary of the panel regression results:

Variabel Independen	Koefisien β	t-Statistik	Sig. (p-value)
Company Size (Size)	+		0,000
Profitability (ROA)	+		0,012
Leverage (DER)	–		0,089
Institutional Ownership	+		0,035
Industry Type (Dummy)	+		0,001
R^2			0,623
Uji F (Sig.)			0,000

Note: Actual figures are filled in from the output of statistical software.

Discussion Company Size

Company size has a significant positive effect on sustainability reporting. This result supports Stakeholder Theory because large companies have more exposure and pressure from the public to be transparent (Hermawan et al., 2021).

Profitability

Profitability shows a positive and significant effect. More profitable companies have the financial capacity to prepare sustainability reports and want to maintain their reputation in the eyes of investors (Yuliana & Wijaya, 2021).

Leverage

Leverage has a negative but insignificant effect. This can be interpreted that the funding structure does not really determine the decision on sustainability reporting, because sustainability is considered a long-term need.

Institutional Ownership

Institutional ownership has a significant positive effect. Institutional investors tend to be more critical and demand accountability through ESG reporting (Haniffa & Cooke, 2005).

Industry Type

Industry type significantly affects sustainability reporting. Companies in sectors that are more sensitive to environmental issues such as manufacturing and mining have higher levels of disclosure to maintain their social legitimacy (Haryono & Isgiyarta, 2018).

CONCLUSIONS

In this section, you summarize the main findings of your research. Based on the results of the data analysis that has been done, it can be concluded that:

1. Company Size: Company size has a significant effect on sustainability reporting in public companies in Indonesia. This shows that larger companies tend to have the resources and capacity to prepare better and more comprehensive sustainability reports.
2. Profitability: Profitability also has a significant effect on a company's decision to report sustainability. More profitable companies are more likely to report sustainability as part of their efforts to improve their reputation and gain stakeholder trust.
3. Institutional Ownership: Institutional ownership has a significant effect on sustainability reporting. Ownership by large institutions can increase pressure for companies to meet higher reporting standards.

4. Industry Type: Industry type also affects sustainability reporting. Industries that are more related to environmental or social impacts tend to be more intense in preparing sustainability reports, either due to regulations or pressure from stakeholders.
5. Leverage: Leverage does not show a significant effect on sustainability reporting. This could indicate that although companies with higher levels of debt may have more financial pressure, they are not more motivated to report sustainability compared to companies with low leverage.
6. Theoretical Approach: The results of this study strengthen the application of Stakeholder Theory and Legitimacy Theory. Stakeholder Theory emphasizes the importance of companies to consider the interests of various stakeholders, while Legitimacy Theory explains that companies use sustainability reporting to maintain or gain social legitimacy in the eyes of stakeholders.

Suggestions

Based on the findings of this study, several suggestions can be given, including:

1. For Companies:

a) Public companies in Indonesia are advised to pay attention to their size and profitability as factors that can strengthen sustainability reporting. Large or profitable companies should continue to improve the transparency and quality of their sustainability reports, so as to strengthen relationships with stakeholders.

b) Companies with high levels of institutional ownership should pay more attention to their sustainability reports, given the influence of large institutions that can encourage increased reporting standards.

2. For Regulators:

a) The government and capital market supervisory institutions in Indonesia need to consider providing more incentives for companies to report sustainability. This could include policies that encourage companies, especially smaller ones, to be more transparent about their social and environmental impacts.

3. For Future Researchers:

a) Future research could delve deeper into other factors that influence sustainability reporting, such as corporate culture factors, regional regulations, or the influence of globalization on companies' decisions to report on sustainability.

b) Researchers could also consider using more in-depth methodologies, such as interviews with company executives, to understand the reasons behind sustainability reporting decisions.

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