

Stakeholder Pressures and the Adoption of Sustainability Report Assurance: An Analysis of Indonesia's Voluntary Practices

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ABSTRACT: This study investigates the factors influencing sustainability report assurance in Indonesia, focusing on the pressures from various stakeholders—environmental, employee, consumer, and shareholder demands. Although stakeholders increasingly demand transparency and accountability, the analysis of 20 companies listed on the ESG Leader Index between 2021 and 2023 found no significant relationships between these pressures and the adoption of independent assurance for sustainability reports. Despite the recognized value of sustainability assurance in enhancing report credibility, the voluntary nature of the practice and insufficient regulatory frameworks may contribute to low adoption rates in Indonesia. The findings highlight the need for stronger regulatory frameworks and increased awareness to encourage greater adoption of sustainability assurance. However, this study found that employee pressure factors as the strongest influence in determining whether a company adopts sustainability assurance.

KEYWORDS: Sustainability Assurance, Environment Pressure, Consumer Pressure, Employee Pressure, Shareholder Pressure.

I. INTRODUCTION

In carrying out their operations, companies inevitably bear responsibility for environmental and social impacts in the regions where they operate (Rosyidah, 2017). Sustainability Reporting is a process where companies measure, disclose, and demonstrate efforts towards being accountable, transparent, and responsible entities concerning the environment, society, and stakeholders (Rofelawaty, 2014). Since 2019, financial institutions and publicly listed companies in Indonesia have been required to submit sustainability reports, with full implementation in 2021 following delays due to the COVID-19 pandemic. By 2022, 88% of listed companies had complied with this regulation (PWC, 2023).

Currently, Indonesia's sustainability reporting regulations are governed by POJK 51/2017, which is multi-stakeholder focused and largely based on GRI standards (IAI, 2023). In response to growing concerns about transparency and the integrity of sustainability information, independent external verification, which has been voluntary, is increasingly adopted. Third-party verification of sustainability reports is becoming a common practice among the biggest corporations in the world (KPMG, 2022).

Despite the growing importance of sustainability reporting, many stakeholders continue to demand greater transparency, questioning the integrity of the information published by organizations (Saputro et al., 2022). To address these concerns, some companies are voluntarily adopting independent external assurance to strengthen the credibility and reliability of their sustainability reports. Globally, 96% of the largest 250 companies now produce sustainability reports, with similar trends seen in jurisdictions like Malaysia, Singapore, and Indonesia (PWC, 2023).

However, research indicates that the growth of sustainability assurance lags behind sustainability reporting. A growing trend in the use of ISAE 3000 by non-accounting assurers has been observed. There is an increasing trend in the adoption of ISAE 3000 by non-accounting assurance providers. While accounting firms dominate the market for sustainability assurance, engineering firms are gaining market share, while con-sultancy firms are losing it (Alsahali & Malagueño, 2022). In contrast to the accounting

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firms-dominated mandatory financial audit industry, the sustainability assurance market is still relatively undeveloped and competitive., offering a fertile area for further research (Cohen & Simnett, 2015).

The practices surrounding sustainability report assurance vary widely in terms of the types of assurance providers, the scope of the engagement, and the standards applied. This lack of uniformity has resulted in inconsistencies in how sustainability assurance is conducted (Cohen & Simnett, 2015). Previous studies, such as that of (Quiros et al., 2021), (Denoncour, 2015), (Shum et al., 2009), and (Simnett et al., 2009), have explored various aspects of sustainability reporting and assurance.

Sustainability assurance has drawn criticism for lacking consistency, comparability, and trustworthiness despite being optional (MacLean & Rebernak, 2007). Without mandatory and enforceable standards, large corporations may neglect investments in sustainability efforts, creating a credibility gap that external assurance could help mitigate (Shum et al., 2009).

This study aims to fill the knowledge gap in the literature about the cooperation between assurance and sustainability reportiespecially in developing nations like Indonesia. The research seeks to analyze the variables affecting the assurance of sustainability reports by using a larger sample than previous research to produce more significant data. The key variables include Stakeholder Pressure (Environment, Employee, Customer, and Shareholder), while the dependent variable is sustainability report assurance.

II. THEORETICAL FOUNDATION

II.1. Theory of Stakeholder

The Stakeholder Theory, originally developed by (Freeman, 1984), asserts that organizations hold accountability not only to shareholders but also to a diverse range of stakeholders, including employees, customers, suppliers, communities, and the environment. This theory focuses on the importance of addressing the interests and demands of all stakeholders to ascertain the sustained success and sustainability of a company. As businesses increasingly face pressures from various stakeholders to operate transparently and responsibly, the adoption of sustainability practices, including sustainability reporting and assurance, has become essential.

In relation to assurance of sustainability, stakeholder pressure plays a critical role in driving organizations to adopt external verification of their sustainability reports. Each stakeholder group—environmental advocates, employees, customers, and shareholders—exerts distinct pressures on companies to ensure that their sustainability commitments are credible and transparent. For instance, environmental stakeholders may demand that companies reduce their carbon footprint and provide verified data on their environmental impact (Boiral & Heras-Saizarbitoria, 2020). Similarly, employees may push for assurances regarding workplace safety and fair labor practices, while customers increasingly expect transparency regarding ethical sourcing and product sustainability (Michelon et al., 2015). Shareholders, especially institutional investors, may seek sustainability assurance to manage financial risks related to environmental, social, and governance (ESG) factors (García-Sánchez et al., 2020).

Stakeholder Theory therefore provides a foundation for understanding how stakeholder pressure influences companies' decisions to adopt sustainability assurance. Sustainability assurance through external assurance is a tool used to make sustainability reporting more credible, thereby addressing stakeholder concerns about the precision and reliability of the disclosed information. As pressure from different stakeholder groups intensifies, companies are more inclined to engage in sustainability assurance to enhance their legitimacy and maintain positive relationships with their stakeholders (Perego & Kolk, 2012). Thus, Stakeholder Theory helps explain why companies respond to external demands by ensuring their sustainability reports undergo independent verification.

II.2 Sustainability Assurance

Sustainability assurance in Indonesia is increasingly recognized as a vital mechanism for enhancing the credibility of sustainability reports among companies. As organizations strive to communicate their environmental, social, and governance (ESG) efforts, independent assurance serves as a third-party verification process that validates the accuracy and reliability of reported information. According to a study by (Utami et al., 2024), "the establishment of sustainability committees and recognition through awards positively influences sustainability reporting assurance," indicating that these factors can significantly enhance stakeholder confidence in corporate sustainability practices. This is particularly relevant in the context of Indonesia, where regulatory frameworks, such as OJK Regulation No. 51/2017, emphasize the need for transparent and accountable sustainability reporting (Utami et al., 2024).

Despite the increasing awareness of sustainability assurance, its adoption remains relatively low in Indonesia. Research indicates that only about 17.77% of companies have sought independent assurance for their sustainability reports, primarily due to a lack of mandatory regulations and low awareness levels among businesses (Heriyati, 2022). The study highlights that "the

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majority of companies recognize that independent assurance can enhance the credibility and reliability of their reports," yet many still choose not to pursue this verification process. This gap underscores the necessity for increased education on the benefits of sustainability assurance and the establishment of stronger governance structures to promote transparency in corporate reporting practices (Heriyati, 2022).

Sustainability assurance is an independent evaluation of an organization's sustainability disclosures, intended to improve the reported information's dependability and trustworthiness. According to (Kheireddine et al., 2023), the quality of sustainability assurance is significantly influenced by corporate environmental sustainability performance (CESP). Their findings suggest that firms with robust environmental performance are perceived more favorably in capital markets, illustrating a direct link between effective sustainability assurance and enhanced firm value (Kheireddine et al., 2023). This relationship underscores the role of assurance in reinforcing stakeholder trust and promoting responsible business conduct.

II.3. Environmental Pressure

Environmental pressure refers to the external demands placed on organizations by various stakeholders, including regulatory bodies, consumers, and investors, to adopt sustainable practices. A research by (Wahyuningrum et al., 2023) highlights that stakeholders pressure positively impacts the quality of sustainability reports, thereby enhancing transparency and accountability in corporate environmental performance. The authors argue that as stakeholders demand more comprehensive disclosures regarding environmental impacts, companies are compelled to improve their sustainability reporting practices to maintain legitimacy and competitiveness in the market (Wahyuningrum et al., 2023).

The importance of sustainability assurance extends beyond mere compliance; it serves as a critical mechanism for mitigating risks associated with inaccurate or incomplete sustainability reporting. As noted by (PWC, 2024), organizations that undergo assurance processes not only enhance their credibility but also safeguard their reputations against potential liabilities stemming from environmental violations. The assurance process involves thorough assessments that ensure sustainability data aligns with established standards, thereby bolstering stakeholder confidence in an organization's commitment to sustainable practices.

In summary, the connection between environmental pressure and sustainability assurance is pivotal for organizations striving to enhance their sustainability credentials. As stakeholders increasingly demand transparency and accountability, effective sustainability assurance becomes essential for mitigating risks and fostering trust. Continued exploration of this relationship will be vital for advancing both academic understanding and practical applications in the field of sustainability.

H1: Environmental Pressure has a positive effect on Sustainability Assurance

II.4. Employee Pressure

Employee pressure refers to the expectations and demands that employees place on their organizations regarding social and environmental responsibilities. As internal stakeholders, employees significantly influence corporate policies, particularly those related to sustainability. Research by (Wahyuningrum et al., 2023) indicates that companies facing higher employee pressure tend to produce more comprehensive sustainability reports, thereby enhancing transparency and accountability. The authors argue that empowered employees who are actively involved in decision-making processes are more likely to advocate for sustainable practices within their organizations, leading to improved reporting quality.

The quality of sustainability reporting is crucial for organizations want to demonstrate their commitment to sustainable growth. According to a study by (Rudyanto & Siregar, 2018), employee pressure has a significant positive effect on the quality of sustainability disclosures. Their findings suggest that when employees feel their rights and responsibilities are acknowledged, they are more likely to engage in promoting sustainability initiatives, which in turn enhances the overall quality of the sustainability report. This is consistent with stakeholder theory, which holds that businesses should take into account the interests of all parties involved in their operations, including employees.

H2: Employee Pressure has a positive effect on Sustainability Assurance

II.5. Consumer Pressure

Consumer pressure refers to the demands placed on companies by their customers to implement sustainable practices and transparently report their environmental impact. According to (Wahyuningrum et al., 2023), consumer pressure significantly influences the quality of sustainability reporting. Their study categorizes companies into "consumer-close" and "non-consumer-close" industries, revealing that those in consumer-close sectors are more likely to produce higher-quality sustainability disclosures. This finding is consistent with stakeholder theory, which posits that pressures from stakeholders, including consumers, can drive organizations to enhance their sustainability practices and reporting quality.

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The quality of sustainability reporting is crucial for organizations aiming to demonstrate their commitment to sustainable development. Research by (Sriningsih & Wahyuningrum, 2022) supports the notion that consumer pressure positively affects the quality of sustainability disclosures. They suggest that when consumers seek transparency about a company's environmental practices, organizations are driven to improve their sustainability reports. This is particularly relevant as consumers increasingly prioritize ethical consumption and are willing to boycott companies that fail to meet their sustainability expectations.

H3: Consumer Pressure has a positive effect on Sustainability Assurance

II.6. Shareholder Pressure

Shareholder pressure has emerged as a significant factor influencing the quality of sustainability reports in the corporate sector. Research indicates that shareholders, particularly in publicly traded companies, are increasingly demanding transparency regarding a firm's social and environmental responsibilities. This demand is rooted in the principles of stakeholder theory, which posits that all stakeholders have a right to information about a company's operations (Brown & Deegan, 1998). Studies have shown that companies facing substantial shareholder pressure tend to produce higher-quality sustainability reports, as these reports serve as critical tools for investors to assess long-term sustainability and make informed investment decisions (Fernández-Feijóo-Souto et al., 2012; Nilawati et al., 2018). However, the effectiveness of this pressure can vary; while some studies affirm its positive impact on report quality, other studies suggest that not all forms of stakeholder pressure yield the same results (Wahyuningrum et al., 2023).

The relationship between shareholder pressure and sustainability assurance is also noteworthy. Assurance services, provided by independent third parties, enhance the credibility of sustainability reports and ensure compliance with established standards (Hidayah et al., 2021). As companies increasingly utilize these services, they aim to build trust with stakeholders, including shareholders who expect accurate and reliable disclosures. The interplay between shareholder pressure and assurance practices can lead to improved report quality, as firms recognize the need for transparency in response to investor expectations (Rudyanto & Siregar, 2018). Nevertheless, some research indicates that while shareholder pressure can drive improvements in reporting practices, it may not always correlate directly with enhanced report quality, suggesting a complex relationship that warrants further investigation (Sriningsih & Wahyuningrum, 2022).

H4: Shareholder Pressure has a positive effect on Sustainability Assurance

II.7. Research Conceptual Framework

Drawing on the aforementioned theory and prior research, we propose that Environment pressure, Employee pressure, Consumer pressure and Shareholder pressure significantly influence Sustainability assurance. Consequently, we present the following hypothesis:

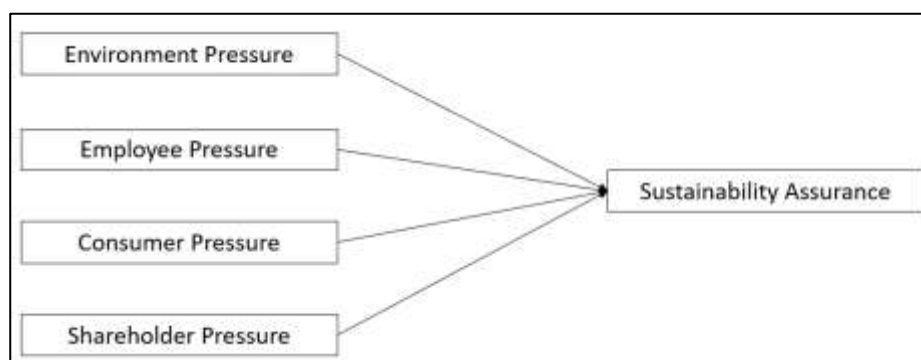


Figure 1. Research Conceptual Framework

III. RESEARCH METHOS

III.1 Data Collection

The nature of this research is hypothesis testing. The research population is companies listed on in the ESG Leader INDEX. Of the 43 companies included in the ESG Leader INDEX, only 20 companies consistently produced sustainability reports for three consecutive years (2021-2023), and of those 20 companies, only 6 companies had their sustainability reports accompanied by limited assurance from an independent party. The sustainability report assurance for the years 2021-2023 serves as the unit of analysis for this research. The data collection technique used is documentary technique, and the sampling method used in this research is purposive sampling with the criteria of public companies that listed on in the ESG Leader INDEX, consistently produced sustainability reports for three consecutive years (2021-2023), and do sustainability assurance.

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The data used in this research is secondary data, in the form of annual reports of companies listed on the Indonesia Stock Exchange in the ESG Leader INDEX for the years 2021–2023. The data sources for this research were obtained from company websites and www.idx.co.id. In addition, the collection of data as a theoretical basis and previous research was sourced from documents, books, and other written sources related to the research topic.

III.2 Data Analysis Method

The dependent variable in this study is Sustainability assurance. The independent variables in this study are Environment pressure, Employee pressure, Consumer pressure and Shareholder pressure. The research model is as follows:

$$SA_{it} = \beta_0 + \beta_1 EP_{it} + \beta_2 EMP_{it} + \beta_3 CP_{it} + \beta_4 SP_{it} + \epsilon_{it}$$

Description:

SA_{it} = Sustainability Assurance of firm i at t .

EP_{it} = Environment Pressure of firm i at t .

EMP_{it} = Employee Pressure of firm i at t .

CP_{it} = Consumer Pressure of firm i at t .

SP_{it} = Shareholder Pressure of firm i at t .

β_0 = Intercept

β_1 = Regression Coefficient for Environment Pressure

β_2 = Regression Coefficient for Employee Pressure

β_3 = Regression Coefficient for Consumer Pressure

β_4 = Regression Coefficient for Shareholder Pressure

ϵ_{it} = error term

III.3 The Operational Definition of Research Variables

Dependent Variable i.e.:

If the companies had a sustainability assurance, the variable Sustainability assurance acquires the value of 1, otherwise it has the value of 0. If the company already has consistent ESG assessment results from external parties such as IDX which is based on Sustainalytics & Morningstar, then the SA score value can be considered 1, and vice versa, if the company does not have a consistent ESG assessment, then the SA score value will be considered 0. (Rudyanto & Siregar, 2018).

Independent Variables are such as:

Environment pressure

The classification of industries with the environment as a stakeholder is based on the framework developed by (Fernandez-Feijoo et al., 2013), which has been adapted to the list of industries on the Indonesia Stock Exchange (IDX). The industries include agriculture, mining, chemicals, machinery, motor vehicle parts and components, cables, property, housing, construction, energy, highways, airfields, ports, transportation, non-building construction, and electronics industries. The industries listed above are assigned a value of 1, while other industries are assigned a value of 0.

Employee pressure

The classification of industries with employees as stakeholders is based on the measurement by (Saka & Noda, 2013), which is measured using a ratio scale. This study utilizes the natural logarithm of the number of employees to ensure that the number of employees does not disproportionately affect the results compared to other measurements.

Consumer pressure

The classification of industries with consumers as stakeholders is derived from the framework by (Fernandez-Feijoo et al., 2013), which has been adjusted to align with the industries listed on the Indonesia Stock Exchange (IDX). The relevant industries include consumer goods, financial services, restaurants, hotels and tourism, retail goods, printing, advertising, media, healthcare, textiles and garments, footwear, energy, investment, and telecommunications. These industries are given a value of 1, while other industries are assigned a value of 0.

Shareholder pressure

The classification of industries with shareholders as stakeholders is based on the measurement by (Jovanka & Faliyany, 2017), using a dummy variable. A value of 1 is assigned if the company operates in an industry with high pressure from investors. These industries include: automotive, aviation, chemicals, computers, conglomerates, construction, construction materials, durable consumer goods, energy, energy utilization, financial services, healthcare products, household and personal products, media,

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metal products, real estate, retailers, technology hardware, telecommunications, textiles and apparel, and toys. For companies in other industries, the variable is assigned a dummy value of 0.

IV. RESULTS & DISCUSSIONS

This study was conducted from September 25 to October 5, 2024, using secondary data obtained from company websites and www.idx.co.id. The population is 43 companies listed on in the ESG Leader INDEX. And the sample of this research is 20 companies consistently produced sustainability reports for three consecutive years (2021-2023),

IV.1 Classical Assumption Test

Normality Test

From figure 1 below we can see that mean, the average value of the residuals is nearly zero, which aligns with the expected outcome. Additionally, the median, representing the middle value of the residuals, is also close to zero, indicating that the distribution is almost symmetrical. Standard deviation, the standard deviation indicates how spread out the residuals are from the mean. A relatively small standard deviation (0.387537) suggests that, in general, the regression model has a fairly good level of accuracy.

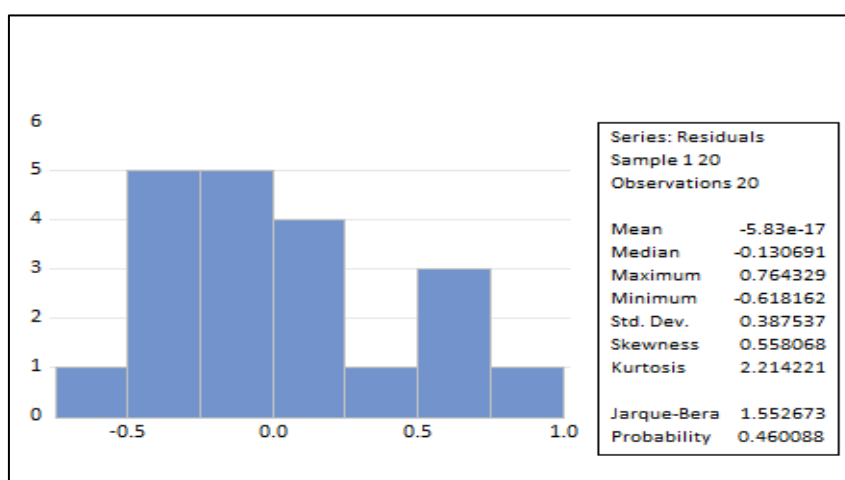


Figure 2. Normality Test (Jarque-Bera)

A positive skewness value (0.558068) indicates that the distribution of residuals is slightly right-skewed, as noted earlier. The kurtosis value of 2.214221 indicates that the residuals' distribution is somewhat more "peaked" than that of a standard normal distribution. Jarque-Bera, the Jarque-Bera test is used to test whether the data distribution follows a normal distribution. The resulting probability value (0.460088) is greater than the typical significance level (e.g., 0.05), indicating that we fail to reject the null hypothesis, suggesting that the data follows a normal distribution. The distribution of residuals is generally close to normal, although there is a slight deviation. The results of the Jarque-Bera test also support this conclusion.

Heteroscedasticity Test

A regression model is considered to have passed the heteroscedasticity test when the Chi-Square probability value of Obs*R-squared is greater than 0.05. Based on the results of the heteroscedasticity test using the White method, the Chi-Square probability value of Obs*R-squared is 0.3408, which is greater than 0.05. Therefore, the existing regression model is considered to have passed the heteroscedasticity test.

Table 1. Heteroscedasticity Test Using White Method

Heteroskedasticity Test: White			
Null hypothesis: Homoskedasticity			
F-statistic	1.121050	Prob. F(7,12)	0.4106
Obs*R-squared	7.907705	Prob. Chi-Square(7)	0.3408
Scaled explained SS	2.700479	Prob. Chi-Square(7)	0.9113

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The F-statistic (5.439634) and the probability value (0.0065): A significant F-statistic (probability value < 0.05) indicates that at least one independent variable in the test equation significantly affects the variance of the residuals. Based on the Glejser test results, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This means there is sufficient evidence to conclude that there is a heteroscedasticity problem in the regression model.

Apart from using the White method, the Glejser method can also be used as follows:

Table 2. Heteroscedasticity Test Using Glejser Method

Test Equation:				
Dependent Variable: ARESID				
Method: Least Squares				
Date: 10/07/24 Time: 23:15				
Sample: 1 20				
Included observations: 20				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.229131	0.193710	-1.182855	0.2553
X1	-0.128543	0.116053	-1.107626	0.2855
X2	0.029637	0.018458	1.605650	0.1292
X3	0.183994	0.115310	1.595650	0.1314
X4	0.379365	0.157797	2.404140	0.0296
R-squared	0.591932	Mean dependent var		0.318005
Adjusted R-squared	0.483113	S.D. dependent var		0.209130
S.E. of regression	0.150354	Akaike info criterion		-0.739336
Sum squared resid	0.339093	Schwarz criterion		-0.490403
Log likelihood	12.39336	Hannan-Quinn criter.		-0.690742
F-statistic	5.439634	Durbin-Watson stat		2.720985
Prob(F-statistic)	0.006547			

Where in the Glejser method, it can be seen that the values of X1= Environment Pressure, X2= Employee Pressure, X3= Consumer Pressure and X4 = Shareholder pressure are all greater than 0.05. Therefore, it is concluded that the regression model has passed the heteroscedasticity test using the Glejser method.

Autocorrelation Test

A regression model is considered to have passed the autocorrelation test when the Chi-Square probability value of ObsR-squared is greater than 0.05. For this regression model, it is concluded that it has passed the autocorrelation test because the Chi-Square probability value of Obs. R-squared is 0.0662, which is greater than 0.05.

Table 3. Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	2.423432	Prob. F(2,13)	0.1275
Obs*R-squared	5.431614	Prob. Chi-Square(2)	0.0662

IV.2 The results of linear regression

The results of the hypothesis testing can be seen in table 4 below. . All independent variables did not have a significant influence on sustainability assurance. This can be seen from the calculated t-value, which is below the t-table.

Table 4. The Results of Linear Regression Test

Variable	Coefficient	Std. Error	T-Statistic
C	0.641	0.562	1.139
EP	-0.136	0.336	-0.404

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EMP	0.066	0.053	1.228
CP	0.259	0.334	0.775
SP	-0.716	0.457	-1.564
R-squared	0.32	F-Statistics	1.768
Adjusted R-squared	0.14		

This research aims to investigate the factors that influence sustainability report assurance in Indonesia, focusing on the pressures exerted by stakeholders such as environmental, employee, consumer, and shareholder demands. Based on the analysis of 20 companies listed on the ESG Leader Index between 2021 and 2023, the research reveals several key insights: The study tests the impact of environmental, employee, consumer, and shareholder pressures on the adoption of sustainability assurance. While these pressures were hypothesized to positively influence the likelihood of companies obtaining independent assurance for their sustainability reports, the statistical tests revealed no significant relationships between these variables and sustainability assurance. This suggests that despite the increasing demand for transparency and accountability from various stakeholders, these pressures alone do not necessarily lead to greater adoption of independent assurance in the sampled companies. The results from the regression analysis indicated that the independent variables (environmental, employee, consumer, and shareholder pressures) did not significantly affect the dependent variable, sustainability assurance. The p-values for all variables exceeded the 0.05 threshold, leading to the rejection of all hypotheses.

The model's R-squared value of 0.32 indicates that approximately 32% of the variation in sustainability assurance could be explained by the independent variables. However, the adjusted R-squared value of 0.14 suggests that the model has limited explanatory power. Furthermore, the overall model's statistical significance (p-value = 0.1875) suggests that the independent variables collectively do not provide a strong prediction for sustainability assurance.

V. CONCLUSIONS AND SUGGESTIONS

Despite the increasing importance of sustainability assurance, the research highlights that the voluntary nature of this process, combined with a lack of comprehensive regulations, might be contributing factors to the low adoption rates in Indonesia. Companies recognize the value of independent assurance in enhancing the credibility of their sustainability reports, but external pressures may not be sufficient to drive significant changes in reporting practices. There is a need for stronger regulatory frameworks and greater awareness regarding the benefits of sustainability assurance.

The findings suggest that further research is needed to explore other factors influencing sustainability assurance adoption, including corporate governance structures, regulatory enforcement, and industry-specific dynamics. Furthermore, expanding the sample size and taking other qualitative criteria could provide a more comprehensive picture of the reasons behind sustainability assurance procedures in Indonesia. In conclusion, while stakeholder pressure plays a role in shaping corporate sustainability practices, it does not appear to directly influence the adoption of independent sustainability report assurance in the Indonesian context. The low adoption rates highlight the need for greater regulatory intervention and corporate commitment to enhancing the credibility and transparency of sustainability disclosures.

ACKNOWLEDGEMENT

We would like to thank Ribka for her remarkable support in collecting and processing the necessary research data, such as determining the sustainability assurance and stakeholder pressures values for each company that is a member of the ESG Leader on the IDX during the 2021-2023.

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