A CASE STUDY OF SOE COMPANIES: AN ANALYSIS OF THE CONTENT AND QUALITY PRINCIPLE OF SUSTAINABILITY REPORTS

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ABSTRACT

This study intends to examine the disclosure of the quality and content standards for sustainability reports, particularly in Indonesian state-owned enterprises. Making sustainability reports as a media that can be used to disclose sustainability challenges has become more popular as firms and stakeholders become more aware of sustainable business practices. From this study of 11 state-owned businesses, it is clear that the materiality indicator, when compared to other indicators, has the highest value in terms of the sustainability report's overall content principle. This is because the materiality indicator highlights all aspects that are at the heart of the report's discussion. On the basis of quality, accuracy and clarity indicators receive the best marks from the quantitative and qualitative techniques since they may accurately represent the caliber of a sustainability report. Additionally, during the research period, it was observed that the movement for the disclosure of sustainability reports on each indicator was extremely erratic due to changes in the necessity for problem disclosure and also compliance with governing rules.

***Keywords**: sustainability report, content principle, quality principle*

1. INTRODUCTION

The business must account for all of its business operations, including non-financial ones. The duty for reporting financial performance is reflected in the company's financial statements, and the annual report offers reporting on non-financial business operations. The annual report looks to be deficient in relaying non-financial information, nevertheless, given the advancement of the times and the rising level of environmental consciousness. From an economic, environmental, and social perspective, stakeholders want more in the information delivery. This is the rationale behind how sustainability reports, a type of corporate reporting on an organization's social and environmental obligations, came to be. Stakeholders perceive sustainability reports as a new awareness for businesses in conveying disclosures and contributions to sustainable development (Cantele et al., 2018; Tsalis et al., 2018).

The sustainability report has been in preparation for a considerable amount of time. According to Gokten et al., (2020), the process of developing a sustainability report framework began in 1962 and continued until it was standardized in 2016. The Global Reporting Initiative (2013) outlined guidelines that should be followed while creating a sustainability report in order to preserve the report's quality. The corporation released a sustainability report. When creating their sustainability

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report, businesses should consider both the concept of quality and the principle of substance. The Financial Services Authority (OJK) of Indonesia has issued Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, which regulates the requirement for companies to submit sustainability reports.

According to a 2020 GlobeScan and GRI study, Indonesia rated #1 in public confidence in the filing of sustainability reports by Indonesian enterprises (Wuryasti, 2020). This aligns with OJK's commitment to supporting the advancement of Sustainable Finance projects, and OJK values this. According to GlobeScan CEO Chris Coulter, the survey's findings demonstrate that businesses are figuring out how to produce sustainability reports more accurately, which is the cornerstone of a successful sustainability strategy.

Transparency in the disclosure of sustainability reports is the subject of research by Zsóka & Vajkai (2018). The study's findings show that while these businesses make every effort to adhere to the standards for content and quality that are used as guidelines when submitting sustainability reports, there are still some challenges that the businesses face. Different research by Kuswanto (2019) revealed that there were discrepancies in the evaluation of the strategy for disclosing sustainability reports. This study examines the amount and quality of disclosure of sustainability reports, and the findings show that while the quantity or number of submissions for disclosure of sustainability reports is pretty excellent, the quality of disclosure of sustainability reports is still relatively poor.

The author intends to examine Indonesia's disclosure of sustainability reports, particularly those published by state-owned enterprises, between 2017 and 2021 based on the research that is currently available. This study aims to persuade readers of sustainability reports of the indicators specified in the standards for report quality and substance. For the disclosure of sustainability reports to be developed in Indonesia, the study's findings are anticipated to be helpful.

2. LITERATURE REVIEW AND HYPOTHESES

Stakeholder Theory

Stakeholder theory, according to Freeman (1984), is the notion that businesses or organizations need to take into account both groups and individuals who may influence and are also impacted by the accomplishment of organizational goals. Freeman also stated that there are two types of stakeholders: internal parties and external parties. Internal parties are represented by employees, suppliers, owners, and customers, whereas external parties include the government, rival companies, consumer advocates, environmentalists, special interest groups, and the media. The moral viewpoint and the ethical perspective are the two views that stakeholder theory emphasizes, according to Ghozali (2020). The ethical perspective holds that stakeholders have certain rights that should not be violated, especially when it comes to the disclosure of information about the organization's impact on stakeholders, while the moral perspective believes that every stakeholder has a right to expect fair treatment from the company.

Corporate Social Responsibility (CSR)

By promoting social good that is not related to the firm's interests, Dmytriyev et al. (2021) describe CSR as a type of assurance from the corporation toward its duties to the community. Regarding CSR in Indonesia, it is also governed by the Limited Liability Company Law Number 40 of 2007 which defines it as a commitment from the company to participate in sustainable economic development with the aim of improving the quality of life and the environment that is advantageous to the company itself, the local community, and society (Indonesia, 2007).

Sustainability Report

Sustainability reporting is defined by Global Reporting Initiative (2013) as a process of measuring, disclosing, and holding business stakeholders, both internally and publicly, accountable for organizational performance in relation to sustainable development goals. The Financial Services Authority of Indonesia defined a sustainability report as a company's announcement to the public that includes the economic, financial, social, and environmental performance of a Financial Services Institution, Issuer, and Public Company in operating a sustainable business in POJK number 51 of 2017 (Otoritas Jasa Keuangan, 2017). Two concepts are used by GRI in its guidebook to illustrate how to prepare a sustainability report so that it can be of high quality. The two guiding principles are the guiding principle of content and the guiding principle of quality, with the guiding principle of content being represented by four indicators: stakeholder involvement, sustainability context, materiality, and equipment. The quality concept, however, has six characteristics that warrant attention: balance, comparability, accuracy, punctuality, clarity, and reliability.

3. RESEARCH METHODS

This study employs the content analysis approach, which is a research method for drawing conclusions that may be duplicated by considering the context (Krippendorff, 2018). Additionally, content analysis is a methodical test that can be repeated from communication symbols in which the symbols are given a numerical assessment based on reliable measurements and analysis utilizing statistical methods in characterizing communication, generating conclusions, and also giving context (Riffe et al., 2019). The researcher originally comprehended the idea of content guidelines and quality principles based on GRI. The content principle has four components, and the quality principle has six. Each element also has a GRI standard number assigned to it. The researcher then examines the disclosures in the sustainability report to see if the business has used it. On research work papers that detail the full process from beginning to end, the analytical activities are reported. According to Gunawan & Abadi's (2017) methodology, each indicator's analytical score is calculated using both a quantitative and qualitative approach. The findings from this analysis are used as research findings depending on each research challenge and are critically analyzed.

4. RESULTS AND DISCUSSION

The Fundamental Value of Sustainability Report Content

It is clear from the examination of the sustainability report's guiding principles that the materiality indicator, which is rated first, has a maximum value of 2.18. The second-ranked completeness indicator has a maximum value of 1.98. The sustainability context indicator is placed third with a maximum score of 1.92. Stakeholder participation is the fourth-ranking indicator, with a maximum value of 1.61. This demonstrates that the business considers materiality indicators to be highly relevant to report to stakeholders. From an ethical and moral standpoint, it makes sense for stakeholders to learn relevant information about what the organization has done to implement sustainable development. The economic, social, and environmental elements that the firm undertakes as a form of duty carried out by the corporation to the community are reflected in the materiality indicators in the sustainability report. This does not imply, however, that other indications lack worthwhile disclosures. The materiality indicator is the focus of disclosure in the sustainability report in this situation. Each indicator has its own submission requirements.

Quality Principle Value in a Sustainability Report

According to the findings of the assessment of the sustainability report's quality principle, the clarity indicator has a maximum value of 6.53 and is placed first. The accuracy indicator is placed second with a maximum value of 5.62. The dependability indicator ranks third, with a maximum score of 3.09. The comparison indicator is placed fourth, with a maximum value of 1.99. The punctuality indicator is placed fifth and has a maximum score of 1.95. The balance indicator is placed sixth, with a maximum value of 1.11.

Based on the value of the principle of content and the principle of quality offered in the research performed by Kuswanto (2019), the number of disclosures will be larger when compared to the quality of disclosure in the evaluation of aspects by aspect viewed from the principle of content. However, when looking at the total sustainability report, as indicated in the quality principle, the amount and quality of disclosure are fairly high.

Quantitative & Qualitative Development Principles of Sustainability Report Content

Based on the content analysis of both quantitative and qualitative components of the sustainability report, the data on the evolution of the content principle is extremely volatile. Each indicator's information value fluctuates from year to year, which is natural owing to changes in reporting techniques and revisions to the disclosure requirements in sustainability reports. In general, the substance of the indicators of the sustainability context changed significantly over the research period, both quantitatively and qualitatively. This is due to changes in the large picture of the delivery of items or aspects that the organization considers significant, but there aren't many changes in the details.

Quantitative & Qualitative Development Sustainability Report Quality Principles

Data on the evolution of quality standards show that the value of the publication of sustainability reports increases and decreases. One of the indicators that has seen the most significant movement is the indicator of balance and reliability, which indicates a change in the comparative information on events presented in the sustainability report as well as the use of independent auditors in the assessment of the sustainability report. The applicable legislation and changes to the requirement for transparency in sustainability reports are one of the driving forces behind this movement.

5. CONCLUSIONS AND SUGGESTIONS

Based on the findings of the study, it is possible to infer that the materiality indicator is the most important indicator in the content of sustainability reports for state-owned enterprises. The materiality indicator is an indicator that represents the economic, social, and environmental factors in a sustainability report.

According to the sustainability report quality principle, the accuracy indicator has the highest value when compared to other indicators using a quantitative approach, and the clarity indicator receives the highest score when compared to other indicators, which suggests that from the sustainability report presented, accuracy and clarity are important indicators in its disclosure.

Due to changes in the need for the disclosure of sustainability report information as well as changes to applicable standards or regulations, there was a shift away from disclosing the fundamentals of the content and quality of the sustainability report where it was natural to happen during the research period.

The findings of this study can help businesses and stakeholders by offering recommendations for how to improve sustainability reporting by using quantitative and qualitative techniques. Furthermore, investors can utilize the sustainability report as one of the data sources when making decisions. Future scholars can create an evaluation of sustainability reports by examining or comparing data from various industries, as well as by comparing those data with changes in the appropriate requirements.

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