



## *Determinants of Sustainability Reporting Quality in Indonesia*

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**Abstract:** This study aims to investigate the effect of corporate integrity, external assurance, foreign ownership structure, audit committee size and meetings on the quality of sustainability reporting. The sample in this study is public companies listed on the Indonesia Stock Exchange from 2021 to 2022. This study uses Random Effect Model panel regression. The results showed that corporate integrity, external assurance, and audit committee meetings have a positive impact. Foreign ownership structure and audit committee size have no effect. Limitations in this study, first, the potential influence on the quality of sustainability reporting is not limited to the variables tested in this study. Further research can be conducted on new determinants, such as corporate vision and/or mission, organizational culture, management competencies, and market pressures. Second, this research only uses quantitative methods, further research can use qualitative methods. This study has theoretical implications to add to the legitimacy theory literature in explaining the relationship between variables. Practical implications, for company managers can apply the principles of corporate integrity, consider external assurance services and increase the number of audit committee meetings. Regulators are expected to play an active role in drafting regulations related to upholding the principles of integrity, using external assurance services and organizing audit committee meetings. This research emphasizes quality over quantity. This study is also the first research in the Indonesian context to investigate the role of corporate integrity and involve the choice of external assurance service providers as a proxy.

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## INTRODUCTION

Rapid urbanization and industrialization have led to sustainability issues across the globe, including the depletion of natural resources, climate change, and poverty (Chang et al., 2019). Corporations are under increasing pressure from stakeholders to act responsibly and minimize the negative impact of their activities on both the natural environment and society (Alkayed & Omar, 2022). These conditions have driven a growing interest in sustainability disclosure, which integrates ethical, environmental, and social issues, consumer concerns, and human rights into business practices (Chang et al., 2019). In recent decades, sustainability disclosure has become a growing trend in various countries (Khan et al., 2021; Alshali & Malagueño, 2022; Githaiga & Kosgei, 2023). According to a survey conducted by KPMG (2022), 96% of the world's 250 largest companies (G250) have published

sustainability reports. This data indicates that sustainability reporting is now a standard procedure for numerous companies (KPMG, 2022).

Although the number of sustainability reports has increased significantly, the quality, credibility, and reliability of these reports have received criticism in the literature. Corporate sustainability information is often perceived as a symbolic method to build a positive image, thus failing to provide high-quality sustainability information (Michelon et al., 2015; Diouf & Boiral, 2017; Chang et al., 2019). In this context, poorly performing companies may take advantage of sustainability reporting to legitimize their operations without paying attention to the quality of the disclosed information (Manning et al., 2019). Therefore, researchers have suggested the need for more intensive studies on the quality of sustainability reporting (Diouf & Boiral, 2017; Cho et al., 2018; García-Sánchez et al., 2019; Sebrina et al., 2023).

Several factors are considered as determinants of sustainability report quality, including corporate integrity (Elaigwu et al., 2022), external assurance (Elaigwu et al., 2022), foreign ownership structure (Ismail et al., 2018), audit committee size (Alkayed & Omar, 2022), and audit committee meetings (Erin et al., 2022). These determinants are essential to study if the goals of sustainability practices are to be achieved (Elaigwu et al., 2022). High-quality sustainability information is perceived as more reliable, credible, and relevant, thereby reducing the credibility gap and stakeholder distrust (Michelon et al., 2015; Diouf & Boiral, 2017). Furthermore, quality sustainability reports enhance corporate image and competitiveness (Erin et al., 2022).

Empirical evidence regarding the quality of sustainability reporting is still largely dominated by studies from developed countries (Elaigwu et al., 2022), with limited research focusing on sustainability report quality in emerging markets (Katmon et al., 2019). This indicates that further investigation in this field is necessary. Therefore, this study focuses on publicly listed companies in Indonesia, considering that the quality of sustainability disclosure in Indonesia still needs improvement (Rudyanto & Siregar, 2018; Amidjaya & Widagdo, 2020), despite an increasing awareness of corporate sustainability practices and reporting initiatives in Indonesia (FIRHSST, 2021). Social and environmental disclosure practices in Indonesian companies remain in the early stages compared to developed countries (Amidjaya & Widagdo, 2020). This may be due to a lack of awareness among Indonesian companies regarding the importance of corporate sustainability reporting to the public (Rudyanto & Siregar, 2018), limited understanding of social and environmental disclosure (Amidjaya & Widagdo, 2020), and the tendency for sustainability reporting in Indonesia to be merely a formality (Sebrina et al., 2023).

In Indonesia, research on the quality of sustainability reports is still relatively limited (Sebrina et al., 2023). Most prior studies have focused on the level of disclosure, while the quality of sustainability disclosure has received less attention. Moreover, previous research has not paid sufficient attention to corporate integrity, external assurance, foreign ownership structure, audit committee size, and audit committee meetings as determinants of sustainability report quality. Although Elaigwu et al. (2022) used corporate integrity to examine the quality of sustainability reporting, their study was limited to the context of publicly listed companies in Malaysia, which restricts the generalizability of their findings to other countries. Thus, this study fills the existing gap and offers several contributions.

First, this study is expected to contribute to the existing literature on the quality of sustainability disclosure in Indonesia—an area that remains relatively underexplored. Second, it advances the understanding of current sustainability report quality in Indonesia by examining the determinants of sustainability disclosure quality. Third, this is the first study in the Indonesian context to investigate the role of corporate integrity in influencing sustainability reporting quality. The findings highlight the importance of corporate integrity in determining the quality of sustainability reporting (Elaigwu et al., 2022). Fourth, to the best of the authors' knowledge, this is the first study in Indonesia to use the choice of external assurance providers as a measurement indicator. This study offers a novel approach in Indonesia by involving the selection of external assurance providers, as simply adopting sustainability

assurance is not deemed sufficient to assess the sustainability reporting process (Al-Shaer et al., 2022). Fifth, the current study adds to the literature by examining how corporate governance characteristics contribute to the quality of sustainability practices in the Indonesian context. Corporate governance mechanisms, such as the audit committee, can influence how organizations engage in quality sustainability reporting (Erin et al., 2022).

This study adopts legitimacy theory as its theoretical foundation. This theoretical framework provides an appropriate perspective for understanding sustainability reporting practices (Erin et al., 2022). Additionally, legitimacy theory offers a clearer explanation of the importance of sustainability disclosure within companies (Appiagyei et al., 2022; Erin et al., 2022; Githaiga & Kosgei, 2023; Juusola & Srouji, 2023; Kumar et al., 2022; Sumarta et al., 2021). Legitimacy theory is closely linked to sustainability disclosure because sustainability reporting functions as a tool to legitimize business operations by demonstrating that the company operates within socially acceptable norms (Deegan, 2002; Elaigwu et al., 2022; Erin et al., 2022; Palma et al., 2022).

From the perspective of legitimacy theory, high-quality sustainability disclosure is one way to legitimize business activities (Elaigwu et al., 2022). Companies can use integrity and external assurance to legitimize operations, strengthen organizational legitimacy, and enhance their reputation through quality sustainability practices (Elaigwu et al., 2022). The presence of foreign ownership in companies can also provide legitimacy to corporate activities through high-quality sustainability reporting (Al Amosh & Khatib, 2022). Furthermore, from the standpoint of legitimacy theory, one way to maintain organizational legitimacy is through corporate governance mechanisms, including the function of the audit committee (Erin et al., 2022).

Therefore, this study aims to provide empirical evidence on the determinants of sustainability report quality, including the influence of corporate integrity, external assurance, foreign ownership structure, audit committee size, and audit committee meetings. A total of 154 publicly listed companies in Indonesia that independently published sustainability reports in 2021–2022 were used as the research sample. The selection of these years is based on the issuance of Regulation POJK No.51/POJK.03/2017 (OJK, 2017). During this period, the latest GRI 2021 standards were also introduced. Furthermore, there was a notable increase in sustainability disclosure among companies in Indonesia in 2021–2022 (PwC Indonesia, 2023).

## **LITERATURE REVIEW AND HYPOTHESES**

### **Legitimacy Theory**

Suchman (1995) describes legitimacy as a broad perception or belief that an organization's actions are acceptable, suitable, or aligned with the socially established system of norms, values, principles, and interpretations. Based on legitimacy theory, a company must demonstrate to society that it operates legally and in accordance with societal expectations to ensure its survival (García-Sánchez et al., 2019). Today, this theory is closely associated with sustainability disclosure, as sustainability reporting serves as a tool to legitimize business operations by showing that the company operates within socially accepted norms (Ching & Gerab, 2017; Elaigwu et al., 2022; Kumar et al., 2022). Furthermore, from the legitimacy perspective, sustainability disclosure is an instrument that companies can use to build, protect, or enhance their reputation (Palma et al., 2022).

From the legitimacy theory perspective, high-quality sustainability disclosure is a means to legitimize business activities (Elaigwu et al., 2022). Companies are beginning to improve the quality of sustainability performance and reporting to gain public legitimacy (Sumarta et al., 2021). Efforts to improve sustainability quality include fostering a culture of integrity and the use of external assurance (Elaigwu et al., 2022). If companies address integrity and external assurance issues seriously, they can enhance their reputation and image and obtain benefits such as improved quality of sustainability disclosure, public trust, and organizational legitimacy (Fernandez-Feijoo et al., 2018; Elaigwu et al., 2022).

Similar situations occur in companies with foreign ownership structures, where sustainability reporting is used as a tool to gain legitimacy, achieve long-term benefits, and secure capital (Alshbili et al., 2020; Amidjaya & Widagdo, 2020). Another effort to enhance sustainability quality is through the audit committee (Erin et al., 2022). The audit committee plays a significant role in controlling and safeguarding disclosure activities, reducing errors in business practices, and overseeing both financial and non-financial reporting, thereby improving the quality of disclosed information (Mohammadi et al., 2021; Alkayed & Omar, 2022). According to legitimacy theory, an essential corporate governance mechanism to maintain legitimacy is the audit committee (Erin et al., 2022).

### **Corporate Integrity**

Integrity involves actions that prioritize honesty, sincerity, transparency, and accountability (Elaigwu et al., 2022). Corporate integrity also represents a company's commitment to transparency and accountability (Cecchetti, 2018; Elaigwu et al., 2022). Integrity is viewed as an ethical tendency or behavior of an organization aligned with societal norms (Cecchetti, 2018; Moses et al., 2020). Companies that uphold integrity often maintain high ethical and moral standards and take responsibility for others or the community, which drives them to consider societal interests in business operations (Wan et al., 2020). Integrity-oriented companies are more likely to be noticed and monitored by the public (Guiso et al., 2015). As a result, the public sets higher expectations for integrity-oriented firms (Wan et al., 2020). Consequently, to meet these expectations and protect their reputation, companies act in accordance with norms, ultimately promoting the implementation of quality sustainability practices (Wan et al., 2020).

Deegan (2002) explained that from a legitimacy theory perspective, companies and their business activities must be viewed as legitimate by society. This legitimacy perspective reflects societal expectations on how companies should conduct their business, forming the foundation for the continuation of their operations (Deegan, 2002). In this context, companies often face significant pressure to gain social acceptance and comply with societal norms (Buallay & Al-Ajmi, 2020). Based on this assumption, companies facing legitimacy threats and public pressure can adopt high-quality sustainability practices using integrity to meet societal expectations and legitimize their operations (Elaigwu et al., 2022).

When companies uphold integrity, the quality of sustainability disclosure improves. The empirical study by Wan et al. (2020) found that companies tend to have higher-quality CSR when they implement a culture of integrity. Similarly, Elaigwu et al. (2022) showed that companies applying corporate integrity improve the quality of sustainability reporting. In line with the above discussion and previous empirical findings, this study develops the following hypothesis:

**H1: There is a positive effect of corporate integrity on the quality of sustainability reporting.**

### **External Assurance**

External assurance refers to an independent professional service aimed at enhancing the trust, accuracy, and reliability of the information in sustainability reports (Cicchiello et al., 2021). It can also be seen as a tool to improve the perceived credibility and reliability of the company among stakeholders (Radhouane et al., 2020). External assurance providers play a role in verifying external reports and the processes behind them by issuing assurance statements that can be used as part of the sustainability reporting process (Cicchiello et al., 2021). Companies may voluntarily seek external assurance services to validate their sustainability reports, designed to assess the quality of the report and the included information for public disclosure (Cicchiello et al., 2021). Hence, companies can use external assurance to enhance the quality of sustainability information (Boiral & Heras-Saizarbitoria, 2020; Elaigwu et al., 2022; Erin et al., 2022).

From the legitimacy theory perspective, corporate activities should align with the norms, principles, and values upheld in society (Deegan, 2002). Therefore, companies must consider the welfare of the community where they operate to legitimize their business operations (Elaigwu et al., 2022). Aligned with legitimacy theory, the use of external assurance can strengthen legitimacy by ensuring the reliability and credibility of sustainability information presented to the public (Radhouane et al., 2020) and meeting public expectations regarding lawful and norm-aligned practices (Alsahali & Malagueño,

2022).

Regarding the influence of external assurance on sustainability reporting quality, Al-Shaer & Zaman (2019) documented that companies using external assurance are more likely to monitor managerial behavior and focus on sustainability goals. Erin et al. (2022) found that external assurance improves the credibility of an organization's non-financial disclosures. Likewise, Elaigwu et al. (2022) provided evidence that using external assurance in sustainably reports contribute to higher-quality transparency in information sharing. Based on these explanations and previous findings, this study proposes the following hypothesis:

**H2: There is a positive effect of external assurance on the quality of sustainability reporting.**

### **Foreign Ownership Structure**

Foreign ownership refers to investors or shareholders originating from other countries (Ismail et al., 2018). The presence of foreign shareholders can have positive impacts on a company, as they bring better business practices from their organizations and countries (Amidjaya & Widagdo, 2020). According to Suchman (1995), under legitimacy theory, an organization must continuously ensure that its activities conform to societal norms. Deegan (2002) also emphasized that organizations must demonstrate that their performance and activities are acceptable to society.

From the legitimacy theory perspective, foreign ownership can legitimize company activities through sustainability reporting (Al Amosh & Khatib, 2022). Foreign investors tend to have better expertise and technologies to solve information-related problems (Lindemanis et al., 2022). According to Rustam et al. (2019), foreign investors are more accountable for environmental, social, and economic impacts due to their superior business oversight. Additionally, foreign firms possess better financial knowledge and contextual information advantages compared to local firms (Alshbili et al., 2020). Therefore, foreign investors are more likely to invest in sustainability practices that meet societal expectations.

Previous studies, such as Ismail et al. (2018), acknowledged that foreign ownership encourages oil and gas managers in developing countries to enhance environmental disclosure quality. Similarly, Rustam et al. (2019) showed that foreign ownership plays a key role in motivating non-financial firms in Pakistan to engage in sustainability reporting. Amidjaya & Widagdo (2020) found that the presence of foreign investors in Indonesian banks leads to better sustainability reporting. Consistent with these theoretical arguments and empirical findings, this study investigates this relationship in Indonesian public companies and develops the following hypothesis:

**H3: There is a positive effect of foreign ownership structure on the quality of sustainability reporting.**

### **Audit Committee Size**

According to Dowling & Pfeffer (1975) and Suchman (1995), the effort to create societal behavioral norms aligned with social values is a form of gaining legitimacy. Legitimacy theory posits that the audit committee's function in corporate governance helps maintain organizational legitimacy (Michelon & Parbonetti, 2012; Erin et al., 2022). The theory also suggests that the presence of an audit committee is symbolic, used to obtain or retain organizational legitimacy (Michelon & Parbonetti, 2012; Ahmed Haji & Anifowose, 2016; Erin et al., 2022). In this context, the audit committee encourages corporate management to engage in sustainability disclosure practices to gain legitimacy through good governance.

The effectiveness of the audit committee in corporate governance depends on the available resources (Ahmed, 2023). Although no specific number is mandated, previous research and governance guidelines recommend at least three members in the audit committee (Buallay & Al-Ajmi, 2020; Raimo et al., 2021; Ahmed, 2023; Bataineh et al., 2023). A larger audit committee reflects more human resources and the likelihood of diverse perspectives, opinions, and skills (Raimo et al., 2021). This diversity Strengthens the Function of audit committee I monitoring the information collection and representation process, thus influencing the quality of non-financial reporting (Mohammadi et al., 2021).

Previous empirical studies, such as Raimo et al. (2021), found a positive relationship between audit committee size and integrated reporting quality. Other studies also confirmed that the audit

committee's presence positively impacts the scope and quality of CSR disclosure (Alkayed & Omar, 2022; Mohammadi et al., 2021). Erin et al. (2022) also concluded that audit committee size contributes positively to sustainability report quality. On this basis, the fourth hypothesis is proposed:

**H4: Audit committee size has a beneficial influence on sustainability reporting quality.**

### **Audit Committee Meetings**

Legitimacy theory posits that companies uphold legitimacy by communicating to stakeholders that their practices are rightful and socially acceptable (Suchman, 1995). . In this regard, companies strive to meet social expectations to gain acceptance (Buallay & Al-Ajmi, 2020). This can be achieved by implementing acceptable business practices and engaging in socially responsible activities through effective governance mechanisms (Ahmed Haji, 2015; Erin et al., 2022). Under legitimacy theory, the audit committee's effectiveness strengthens corporate legitimacy among diverse stakeholders (Ahmed Haji & Anifowose, 2016; Erin et al., 2022). Raimo et al. (2021) stated that the frequency of audit committee meetings reflects the members' commitment and indicates the committee's effectiveness. An audit committee that meets at least four times a year is considered effective (Erin et al., 2022). Regarding non-financial disclosure, frequent audit committee meetings raise awareness among members about the importance of transparency in sustainability reporting (Buallay & Al-Ajmi, 2020). Regular meetings also enhance the committee's supervisory function, contributing to improved sustainability report quality (Erin et al., 2022). Erin et al. (2022) stated that high-quality sustainability reporting can be achieved through regular audit committee meetings, as these provide more time to discuss reporting activities. Thus, audit committee meeting frequency is a crucial characteristic (Buallay & Al-Ajmi, 2020).

Previous research has shown a positive impact of audit committee meetings on sustainability report quality (Erin et al., 2022), integrated reporting quality (Ahmed Haji & Anifowose, 2016; Raimo et al., 2021), sustainability report credibility (Al-Shaer & Zaman, 2018), intellectual capital disclosure (Ahmed Haji, 2015), and the level of sustainability reporting disclosure (Buallay & Al-Ajmi, 2020). However, limited evidence exists on the influence of audit committee meeting frequency on sustainability report quality. Based on this gap, the following hypothesis is proposed:

**H5: There is a positive effect of audit committee meetings on the quality of sustainability reporting.**

## **METHODS**

### **Sources and Data Collection Techniques**

This study falls into the category of explanatory research with a quantitative approach (Sugeng Bambang, 2020). The study aims to explain the influence of independent variables, namely corporate integrity, external assurance, foreign ownership structure, audit committee size, and audit committee meetings on the dependent variable, the quality of sustainability reporting. In this research, leverage and profitability are used as control variables.

The study utilizes secondary data sourced from sustainability reports and annual reports of sampled companies over the 2021–2022 period. The data used in this research is in the form of panel data. Data collection was carried out by accessing sustainability reports and annual reports for the years 2021–2022 from the IDX website ([www.idx.co.id](http://www.idx.co.id)) or directly from the official websites of the respective companies.

## Population and Sample

The population in this study includes all publicly listed companies on the Indonesia Stock Exchange (IDX) during 2021 to 2022. A final sample of 154 companies was selected using purposive sampling. This study focuses on a two-year period, 2021–2022, for several reasons: during this period, Financial Services Authority Regulation POJK No. 51/POJK.03/2017 (OJK, 2017) was implemented. This regulation requires all publicly listed companies to prepare sustainability reports. It also serves as a key milestone in Indonesia's sustainable finance roadmap supporting its commitment to sustainable growth (OJK, 2017). Moreover, selecting the 2021–2022 period allows for the use of the most recent data to evaluate the quality of sustainability reporting using the latest GRI Standards (GRI 2021).

Additionally, during 2021–2022, there was a notable increase in sustainability disclosure by companies in Indonesia (PwC Indonesia, 2023). However, the increase in disclosure does not necessarily indicate an improvement in the quality of information reported (Al-Shaer & Zaman, 2016). This study focuses on standalone sustainability reports, as they are generally more comprehensive and address more CSR issues compared to CSR information disclosed within annual reports (Al-Shaer et al., 2022).

## Operational Definition and Measurement of Variables

### Dependent Variable

#### Sustainability Reporting Quality (SRQ)

Sustainability reporting quality describes the scope and depth to which sustainability information is useful to stakeholders in understanding the report and making informed decisions (Elaignwu et al., 2022). A good sustainability report should include both financial and non financial information about a company's financial, social, and environmental performance (Erin et al., 2022). To achieve the research objectives, a content analysis technique is applied to measure SRQ. In this study, SRQ is measured based on the GRI 2021 guidelines, using three categories: environmental, social, and economic, consisting of a total of 88 items (GRI, 2021). This framework is used as GRI is widely adopted globally and recognized for its comprehensiveness, adoption rate, visibility, and prestige (Chang et al., 2019).

The SRQ is assessed using a scoring index on a scale of 0–3 adopted from Elaignwu et al. (2022). A score of 0 is given if there is no disclosure; 1 for qualitative or general disclosure; 2 for quantitative disclosure; and 3 for both quantitative and qualitative disclosure. The total score is then converted into a percentage using the following formula:

$$SRQ = \frac{\sum X_{ij}}{n_j}$$

#### Where:

- $SRQ$  = Sustainability reporting quality index for a company
- $X_{ij}$  = Jumlah total item yang diungkapkan oleh perusahaan
- $n_j$  = Maximum total score (88 items  $\times$  3 = 264)

Subjectivity is often a challenge in evaluating SRQ (Elaignwu et al., 2022). To mitigate this issue, the study applies external reliability testing using Cohen's Kappa Inter-Rater Reliability, as suggested by Katmon et al. (2019) and Elaignwu et al. (2022). The Cohen's Kappa test is conducted on a subset of data (10–25% of the sample) as recommended by O'Connor & Joffe (2020). In this study, the test was conducted on 35 companies with two raters.

## Independent Variables

### Corporate Integrity (INTEGRITY)

Corporate integrity refers to ethical organizational behavior emphasizing honesty, sincerity, transparency, and accountability, aligned with societal norms (Elaigwu et al., 2022). This study adopts the “integrity markers” index developed by Elaigwu et al. (2022), which identifies five key indicators: (1) Code of ethics/conduct, (2) Anti-corruption programs, (3) Whistleblowing policy, (4) Internal job rotation, and (5) Training and education programs. This variable is measured using a dummy system, where 1 indicates the presence of the document/policy and 0 indicates its absence. Corporate integrity is calculated as a cumulative index using the following model:

$$Integrity = \frac{\sum(v_m)}{v^h_m}$$

### Where:

- $v$  = the value assigned to each 'indicator'  
 $m$  = "indicator number"  
 $v^h$  = the maximum score for each indicator is 5.

### External Assurance (EXTASSUR)

External assurance refers to the role of independent professional services in verifying sustainability reports and drawing conclusions about the quality and content of disclosed information (Cicchello et al., 2021). This variable is scored as follows (Al-Shaer et al., 2022): 0: No external assurance, 1: Assurance by a non-accounting firm, 2: Assurance by a non-Big Four accounting firm, 3: Assurance by a Big Four accounting firm

### Foreign Ownership Structure (FORGOWN)

Foreign ownership structure refers to the percentage of shares held by foreign investors in a company (Hasan et al., 2022). Foreign ownership is a significant factor in encouraging sustainability reporting (Rustam et al., 2019). This variable is measured as follows (Ismail et al., 2018):

$$ORGOWN = \frac{\text{Total shares owned by foreigners}}{\text{Total outstanding sharee}} \times 100\%$$

### Audit Committee Size (ACFE)

Audit committee size is defined as the number of members serving on a company’s audit committee (Erin et al., 2022). It is measured by counting the total number of audit committee members (Erin et al., 2022).

### Audit Committee Meetings (ACMEET)

Audit committee meetings refer to the total number of meetings held by the audit committee within a year (Erin et al., 2022). More frequent meetings can improve the quality of corporate reporting (Ahmed Haji & Anifowose, 2016; Erin et al., 2022). This variable is measured by counting the total number of audit committee meetings in a year (Erin et al., 2022).

## Control Variables

### Leverage (LEV)

Leverage refers to the ratio used to measure the extent to which a company uses debt as a funding source (Kasim, 2019). Organization higher debt tend to report detailed information to build credibility with lenders and stakeholders (Boshnak, 2022). Leverage is included as a control variable because the ability to manage debt effectively may influence the quality of sustainability reporting

(Ismail et al., 2018). This study uses the Debt to Equity Ratio (DER) to measure leverage (Erin et al., 2022).

**Profitability (ROA)**

Profitability is the ratio used to assess a company’s ability to generate profit over a specific period (Kasmir, 2019). Companies with strong profitability tend to disclose more sustainability information to gain legitimacy for their operations (Chang et al., 2019). Availability of financial resources supports sustainability disclosures (Ismail et al., 2018). This study uses Return on Assets (ROA) to measure profitability. This study uses Return on Assets (ROA) to measure profitability (Erin et al., 2022; Fernandes et al., 2023). Refer to Table 1 below for a brief explanation of the operational definitions and measurement of all variables used in this study.

**Table 1. Operational Definitions and Measurement of Variables**

Variable	Operational Definition	Measurement	Source
<b>Dependent Variables</b>			
Kualitas Sustainability Reporting Quality (SRQ)	Sustainability information that is useful for stakeholders in the decision-making process (Elaigwu et al., 2022).	Index on a scale of 0–3. Score 0: no information; Score 1: qualitative or general disclosure; Score 2: quantitative or monetary disclosure; Score 3: both quantitative and qualitative disclosure.	Sustainability Report
<b>Independent Variables</b>			
Corporate Integrity (INTEGRITY)	The form of organization behavioral ethical. (Elaigwu et al., 2022).	5-item integrity index including: 1) Code of ethics or conduct, 2) Anti-corruption program, 3) Whistleblowing system, 4) Internal job rotation, 5) Training and learning.	Sustainability Report
External Assurance (EXTASSUR)	Independent professional services that provide verification of external reporting (Cicchello et al., 2021)..	Dummy variable: 0 = no assurance; 1 = assured by non-accounting firm; 2 = assured by non-Big Four accounting firm; 3 = assured by Big Four accounting firm.	Sustainability Report
Foreign Ownership Structure (FORGOWN)	The percentage of shares owned by foreign investors in an entity (Hasan et al., 2022).	Total shares owned by foreign investors / total outstanding shares.	Annual Report
Audit Committee Size (ACFE)	The number of audit committee members in a company (Erin et al., 2022)	Total number of audit committee members	Annual Report
Audit Committee Meeting (ACMEET)	Total number of audit committee meetings held in one year (Erin et al., 2022).	Total number of audit committee meetings held in a year	Annual Report
<b>Control Variable</b>			

Leverage (LEV)	The ratio of how much debt a company uses as a source of funding (Kasmir, 2019).	DER	Annual Report
Profitability (ROA)	Ratio that assesses the company's ability to generate profit .(Kasmir, 2019).	ROA	Annual Report

### Data Analysis Technique

Panel regression is applied in this research as the data analysis technique. The author selected this method based on the consideration that panel data is more capable of generating rich and diverse information, reducing the likelihood of multicollinearity among variables, and explicitly addressing heterogeneity (Gujarati, Damodar N. & Porter, Dawn C., 2012). The panel data regression model is represented by the following equation model.

$$SRQ_{it} = c + \beta_1 INTEGRITY_{it} + \beta_2 EXTASSUR_{it} + \beta_3 FORGOWN_{it} + \beta_4 ACFE_{it} + \beta_5 ACMEET_{it} + \beta_6 LEV_{it} + \beta_7 ROA_{it} + \varepsilon_{it}$$

## RESULTS AND DISCUSSION

### Descriptive Statistics

Descriptive statistical testing was conducted to obtain results or descriptions of the data, including the minimum value, maximum value, mean, and standard deviation of the variables: sustainability reporting quality, corporate integrity, external assurance, audit committee size, audit committee meetings, leverage, and profitability. The complete results of the descriptive statistical analysis can be seen in Table 2

**Tabel 2. Descriptive Statistic Result Analysis**

Variabel	Min	Max	Mean	Std Dev
SRQ	0.0200	0.5500	0.2117	0.1014
INTEGRITY	0.0000	1.0000	0.6459	0.1892
EXTASSUR	0.0000	2.0000	0.3357	0.6436
FORGOWN	0.0100	98.7100	26.0804	27.8074
ACFE	3.0000	11.000	3.5255	1.1295
ACMEET	0.0000	62.000	11.1897	10.6894
LEV	-34.9300	19.1976	1.8653	3.6793
ROA	-0.7993	1.7473	0.0710	0.1811

Source: Processed by the researcher, 2024.

### Descriptive Statistics Results

Based on the results of the descriptive statistical analysis, the quality of sustainability reporting among publicly listed companies in Indonesia in 2021 and 2022 had an average score of 21.17%. Overall, the disclosure quality of these companies remains relatively low. This study found that qualitative or narrative disclosures are more prevalent than quantitative disclosures. This relatively low quality may be due to the fact that some companies do not produce sustainability reports annually. Regarding the items disclosed, companies tend to present information mainly in words and sentences, with limited use of charts, graphs, and images. In addition, companies tend to use repetitive reporting formats from year to year, with little to no variation or enhancement in the content and disclosed items. Companies appear to provide more information, but the information may lack relevance. This suggests that the practice of sustainability reporting may not provide high-quality sustainable information and may serve merely symbolic or formal purposes to gain public trust and image (Michelon et al., 2015; Sebrina et al., 2023).

Furthermore, corporate integrity showed an average score of 64.59%, indicating that publicly listed companies on the IDX have implemented 64% of integrity principles or guidelines. The descriptive statistical test results for external assurance revealed that only 33.57% of publicly listed companies in Indonesia adopt external assurance for their sustainability reports, while 66.43% do not. These findings suggest that the use of external assurance in sustainability reporting in Indonesia remains very limited. This condition may occur due to several factors, such as the voluntary nature of external assurance, the absence of legislation regulating its implementation in Indonesia, and the relatively high cost associated with using such services.

The foreign ownership structure variable had an average score of 26.08%, indicating that the majority of publicly listed companies in Indonesia in 2021 and 2022 that disclosed sustainability reports independently were not dominated by foreign ownership. Next, the audit committee size variable had a minimum score of 3. This minimum value suggests that most publicly listed companies in Indonesia have at least three members on their audit committees. This finding is consistent with previous studies, which suggest that an audit committee should consist of at least three members (Ahmed, 2023; Bataineh et al., 2023). The audit committee size also reached a maximum of 11 members, indicating a Larger number of personnel, which Raises the probability of having diverse perspectives, opinions, and skill sets within the audit committee (Raimo et al., 2021).

Based on the average score, audit committees held regular meetings at least 11 times a year to discuss company activities. This exceeds the minimum standard, which is at least once every three months or four times a year. Leverage, as measured by the debt-to-equity ratio (DER), had an average score of 1.8653. This indicates that That publicly listed companies in Indonesia announce standalone sustainability reports have an average leverage level of 1.86%. Profitability, measured by return on assets (ROA), showed an average score of 0.0710 with a standard deviation of 0.1811. This indicates that publicly Publicly traded companies in Indonesia that disclose separate sustainability reports have an average return on investment of 7.1%.

### **Inter-Rater Reliability**

The Cohen's Kappa test for sustainability reporting quality yielded a score of 0.819. This Kappa value indicates a very strong level of agreement between raters (Katmon et al., 2019). Therefore, the content analysis conducted in this study can be considered satisfactorily reliable (Elaigwu et al., 2022).

### **Panel Regression Model Selection Results**

To properly interpret the analysis results, the most appropriate model or approach must first be selected. The initial step is to determine the model to be used in this study through Chow test, Hausman test, and Lagrange Multiplier (LM) test. Based on the Chow test results, the probability values of both the Cross-section F and Chi-Square tests were 0.0000 ( $< 0.05$ ), suggesting that the Fixed Effect Model (FEM) is the most suitable approach. However, to confirm the best model, the Hausman test must also be conducted. The Hausman test yielded a probability value of  $P = 0.0935$  ( $> 0.05$ ). Based on this result, the most appropriate model is the Random Effect Model (REM). The next step was the Lagrange Multiplier (LM) test. Based on the final model selection test, The Breusch-Pagan test yielded a p-value of 0.0000, demonstrating statistical significance. Considering the results of all three model selection tests, it can be concluded that the most appropriate model to estimate the equation in this study is the Random Effect Model (REM).

### **Classical Assumption Test Results**

According to Basuki & Prawoto (2016) and Baltagi (2021), Panel data integrates both time series and cross-sectional data, which means that not all classical assumption tests required in OLS modeling need to be fulfilled. In panel data regression, the Generalized Least Squares (GLS) estimation

technique is known to fulfill the classical assumptions (Gujarati, Damodar N & Porter, Dawn C, 2012; Baltagi, 2021). GLS is also used to address heteroskedasticity (Baltagi, 2021). Among the panel regression models, only REM employs GLS estimation, while CEM and FEM use OLS methods.

Therefore, it can be stated that the REM is free from heteroskedasticity issues. Since the Random Effect Model (REM) is the best model for estimating the equation in this study, only the multicollinearity test was conducted to identify potential correlations among the independent variables (Widarjono, Agus, 2018). According to the Collinearity assessment results, if the Collinearity coefficient between independent variables is < 0.80, then multicollinearity is not a concern. The results of the multicollinearity test are presented in Table 3.

**Tabel 3. Multicollinearity Result Test**

VARIABLE	INTEGRITY	EXTASSUR	FORGOWN	ACFE	ACMEET	LEV	ROA
INTEGRITY	1.0000	0.2095	0.0869	0.2531	0.2415	0.0790	0.1237
EXTASSUR	0.2095	1.0000	0.1302	0.2803	0.2952	0.1242	0.0768
FORGOWN	0.0869	0.1302	1.0000	-0.0100	-0.0760	0.0081	0.1072
ACFE	0.2531	0.2803	-0.0100	1.0000	0.4652	0.1628	0.0736
ACMEET	0.2415	0.2952	-0.0760	0.4652	1.0000	0.1127	-0.0596
LEV	0.0790	0.1242	0.0081	0.1628	0.1127	1.0000	-0.0580
ROA	0.1237	0.0768	0.1072	0.0736	-0.0596	-0.0580	1.0000

Source: Processed by the researcher, 2024.

**Panel Data Regression Test Results**

The **Random Effect Model (REM)** was selected as the most appropriate model based on the previously conducted model selection tests. The results of the panel regression analysis are presented in **Table 4**.

**Tabel 4. Hasil Uji Regresi Data Panel**

Variabel	Koef	Random Effect Model (REM)	
		t-st	Prob
(Constant)	0.1176	4.9074	0.0000
<b>INTEGRITY</b>	<b>0.1325</b>	<b>4.7394</b>	<b>0.0000***</b>
<b>EXTASSUR</b>	<b>0.0462</b>	<b>4.7489</b>	<b>0.0000***</b>
FORGOWN	-1.8006	-0.0008	0.9994
ACFE	-0.0064	-1.2613	0.2083
<b>ACMEET</b>	<b>0.0014</b>	<b>2.3870</b>	<b>0.0177**</b>
<b>LEV</b>	<b>-0.0028</b>	<b>-2.2998</b>	<b>0.0222**</b>
<b>ROA</b>	<b>0.0945</b>	<b>4.0364</b>	<b>0.0001***</b>
Prob. F-statistic	0.0000		
Adj R <sup>2</sup>	0.2393		
Obs	274		

Notes: \*Low significance (10% level), \*\*Significant (5% level), \*\*\*Highly significant (1% level).

Source: Processed by the researcher, 2024.

Based on the results of the analysis using the Random Effect Model (REM), the probability value of the F-statistic was 0.0000. This finding indicates that all independent variables in this study simultaneously contribute to the dependent variable. Furthermore, the partial test results presented in Table 4 show that the variable **INTEGRITY** has a probability value of 0.0000, which means that corporate integrity has a significant positive effect on the dependent variable.

Next, for the **EXTASSUR** variable, the probability value was also 0.0000, indicating that external assurance plays a major positive role in the dependent variable.

The following variable, **FORGOWN**, had a probability score of 0.9994, indicating that foreign ownership structure does not contribute to the dependent variable. Based on the findings, the **ACFE**

variable (audit committee size) showed a probability value of 0.2083, suggesting that audit committee size does not significantly affect the dependent variable. Meanwhile, the **ACMEET** variable obtained a probability value of 0.0177, meaning that audit committee meetings have a significant positive effect on the dependent variable.

In addition, the model includes two control variables, namely **ROA** and **LEV**. Profitability (ROA) shows a significantly positive effect on the dependent variable with a probability level of 0.0001. Similarly, leverage also shows a significant positive influence with a probability level of 0.0222.

In the test of the coefficient of determination, the adjusted R-squared ( $R^2$ ) score was 0.2393. Based on the established guideline that an  $R^2$  value closer to 1 indicates a better model, the result in this test is relatively far from 1. This implies that the explanatory power of the independent variables in this study is fairly limited.

## **Discussion of Research Findings**

### **Corporate Integrity and the Quality of Sustainability Reporting**

Corporate integrity has been proven to have a positive impact on the quality of sustainability reporting based on the partial test results. This finding implies that corporate integrity is one of the determining factors in the quality of sustainability disclosure. The positive relationship is likely due to companies with integrity being strongly committed to providing transparent disclosures. This is consistent with the findings of Moses et al. (2020), who argued that companies with integrity openly present information on various aspects of sustainability, including social, economic, and environmental impacts. Similarly, Elaigwu et al. (2022) concluded that companies that effectively uphold integrity principles will report high-quality sustainability information through transparent disclosure.

Moreover, integrity plays a role in motivating employees to engage in the sustainability reporting process. This argument is reinforced by the findings of Wan et al. (2020), who emphasized that a culture of corporate integrity shapes organizational members' attitudes and behaviors toward social responsibility. In other words, a culture of integrity encourages company employees to act honestly and ethically in preparing sustainability reports. In addition, Agyei-Mensah (2017) documented that without enforcing integrity principles, factors such as political patronage may motivate management to present misleading information. Thus, by enforcing integrity, companies are more likely to adhere to ethical standards in all business aspects, including sustainability reporting.

This research supports the legitimacy theory perspective, suggesting that companies facing legitimacy threats and public pressure may implement quality sustainability practices by utilizing integrity to meet societal expectations and legitimize corporate operations (Elaigwu et al., 2022). If a company enforces integrity, it can improve the quality of sustainability disclosure and gain a better reputation and image (Fernandez-Feijoo et al., 2018; Elaigwu et al., 2022).

This study's findings also align with Wan et al. (2020), who stated that a culture of integrity within a company can help the company consider business ethics, such as honest and fair operations and the interests of various stakeholders, thus encouraging high-quality social responsibility reporting. Moreover, Moses et al. (2020) and Elaigwu et al. (2022) observed evidence that integrity is a key factor that can be assumed to determine the quality of sustainability reporting. Therefore, the quality of corporate sustainability disclosure reflects the extent to which an organization adheres to integrity principles.

### **External Assurance and the Quality of Sustainability Reporting**

External assurance has been shown to contribute positively to the quality of sustainability reporting, based on data analysis results. This means that using external assurance in sustainability

reports is a determining factor of report quality. This positive result is due to external assurance helping To verify that the reported information is correct, trustworthy, and transparent. This aligns with the statement by Al-Shaer et al. (2022), who noted that external assurance of sustainability reports tends to increase the disclosure of negative aspects, thereby enhancing transparency and completeness through a rigorous independent verification process.

External assurance also improves the credibility and reliability of the truth and quality of the information presented in the sustainability report, as the assessment is conducted without bias or conflict of interest (Al-Shaer & Zaman, 2019; Cicchiello et al., 2021; Dutta & Dutta, 2021; Elaigwu et al., 2022). Moreover, through external assurance, companies are motivated to comply with guidelines and standards related to social, environmental, and governance management, enhancing sustainability disclosure quality (Boiral & Heras-Saizarbitoria, 2020; Elaigwu et al., 2022). External assurance can also Point out limitations in reporting and internal operations control systems, and the reviewer may provide improvement suggestions to help companies enhance future reporting processes (Maroun, 2019).

These findings support legitimacy theory, which posits that societal perceptions and norms shape acceptable corporate behavior (Suchman, 1995). In this context, companies seek to maintain or enhance their legitimacy through social trust. The use of external assurance in sustainability reporting enhances reliability and credibility, which can be leveraged to strengthen legitimacy (Radhouane et al., 2020) and meet societal expectations regarding lawful and normative practices (Alsahali & Malagueño, 2022). Thus, these findings support legitimacy theory.

This study's findings reinforce prior research, such as Elaigwu et al. (2022), who found that external assurance positively affects sustainability reporting quality. Erin et al. (2022) confirmed similar results, asserting that regulation alone is insufficient to improve sustainability reporting quality, and that external verification complements regulatory efforts. Maroun (2019) also showed That external assurance plays a role in improving integrated report quality. Although not mandatory, external assurance can serve as an effective instrument to increase stakeholder belief in the trustworthiness of sustainability report content (Maroun, 2019; Erin et al., 2022). These findings also support Dutta & Dutta (2021), who found that external assurance positively affects the level of corporate climate disclosure.

### **Foreign Ownership Structure and the Quality of Sustainability Reporting**

Foreign ownership has not been proven to affect the quality of sustainability reporting, based on the data analysis results. This indicates that foreign ownership structure is not a determining factor in sustainability report quality. The lack of influence may be because foreign investors tend to prioritize financial performance and stock returns over corporate governance and policy oversight (Hasan et al., 2022). In addition, international investors tend to emphasize short-term profits instead of long-term sustainable outcomes (Saini & Singhania, 2019). As a result, companies may neglect sustainability issues.

Another possible reason for the lack of influence is that most publicly listed companies in Indonesia during 2021-2022 were not dominated by foreign ownership. As such, shareholder involvement in corporate decision-making and control was limited, resulting in a lack of encouragement or oversight for sustainability reporting quality.

This study supports previous research such as Abu Qa'dan & Suwaidan (2019), who argued that Foreign ownership does not affect influence CSR reporting. Similar conclusions were drawn by Hasan et al. (2022), who found that foreign ownership is not a determining factor in sustainability reporting decisions in Pakistan. These findings contradict the legitimacy theory view that foreign ownership can enhance company legitimacy through sustainability reporting (Al Amosh & Khatib, 2022). In reality, foreign ownership does not provide legitimacy through high-quality sustainability reporting.

## **Audit Committee Size and the Quality of Sustainability Reporting**

Audit committee size has not been proven to influence sustainability reporting quality, based on the partial test results. This result suggests that the size of the audit committee is not always a benchmark for sustainability report quality. A larger number of audit committee members may lead to disagreements due to differing views, making decision-making more difficult (Alice & Christian, 2022). This clearly shows that audit committee size does not contribute to sustainability reporting quality. A large committee may reduce its ability to oversee sustainability reporting effectively, leading to lower report quality.

Additionally, according to Madona & Khafid (2020), the primary focus of audit committees is to improve financial report quality. Therefore, audit committees may concentrate more on enhancing financial reporting than sustainability reporting.

These findings challenge legitimacy theory, which suggests that a larger audit committee should encourage companies to produce quality sustainability reports as a communication tool with stakeholders to gain legitimacy. However, this study's results align with Appiagyei et al. (2022) and Ahmed (2023), who found that audit committee size does not affect integrated report quality or the level of sustainability reporting disclosure (Madona & Khafid, 2020; Bataineh et al., 2023).

## **Audit Committee Meetings and the Quality of Sustainability Reporting**

Audit committee meetings significantly and positively influence the quality of sustainability reporting, based on data analysis results. This finding suggests that companies tend to have sustainability reporting practices when audit committee meetings are held frequently. Regular meetings demonstrate the active role of members in discussing various issues related to company activities, including sustainability reporting (Erin et al., 2022).

Additionally, more frequent audit committee meetings within a year enhance the committee's expertise in overseeing and monitoring the reporting process in depth (Raimo et al., 2021). Regular meetings also allow companies to evaluate issues related to sustainability (Musallam, 2018), helping improve sustainability performance and report quality. These implications support the idea that audit committee meeting frequency is beneficial and indicates that members are active and dedicated to producing high-quality sustainability disclosures.

This study confirms earlier findings that audit committee meetings play a positive role in improving the quality of sustainability reports (Erin et al., 2022) and integrated reports (Raimo et al., 2021). It also supports the findings of Arif et al. (2020), who clearly stated that the intensity of audit committee meetings positively impacts both the quality and quantity of ESG disclosures. In line with this, the findings support the legitimacy theory view that audit committee effectiveness is a means of protecting the organization's legitimacy. (Michelon & Parbonetti, 2012; Erin et al., 2022).

## **CONCLUSION**

The purpose of this research is to examine the influence of corporate integrity, external assurance, foreign ownership structure, audit committee size, and audit committee meetings on the quality of sustainability reporting. A total of 154 publicly listed companies on the Indonesia Stock Exchange (IDX) over the period of 2021–2022 were used as research samples. The findings of this study indicate that corporate integrity is one of the determining factors of the quality of sustainability disclosure. Upholding corporate integrity ensures that the reports presented contain accurate, honest, transparent, and non-misleading information. Furthermore, the findings also show that utilizing external assurance proves to be important for companies to improve the quality of disclosure. Reports

that have been assured by external parties meet strict criteria and requirements, resulting in accurate, trustworthy, transparent, and high-quality reports.

Meanwhile, foreign ownership structure is not a determining factor in the quality of sustainability reporting. In reality, foreign shareholding in many Indonesian companies has not yet succeeded in making environmental and social aspects a crucial element that must be fully disclosed in a high-quality sustainability report. This research also provides a unique finding that the quantity of audit committee members within a company cannot not be used as the determinant to values sustainability report quality. A higher quantity of audit committee members may lead to internal conflicts due to differences of opinion, which hinders the committee's ability to make decisions. Furthermore, companies that hold audit committee meetings more frequently tend to have higher-quality sustainability reporting. Full participation of all members in various matters related to company activities is reflected in regular audit committee meetings. These provide more opportunities for the audit committee to review, examine, and improve sustainability reports on a regular basis.

This study complements previous literature on sustainability reporting quality (Chang et al., 2019; Diouf & Boiral, 2017; Elaigwu et al., 2022; Erin et al., 2022; Khan et al., 2021; Rudyanto & Siregar, 2018; Sebrina et al., 2023; Singhanian et al., 2023). It also offers several implications for practitioners, policymakers, and investors. For practitioners, companies can develop new disclosure strategies and ensure that sustainability reports are included in annual reports. Additionally, companies seeking legitimacy in the eyes of the government or other stakeholders and that have significant environmental impacts can use these findings to gain legitimacy for their products and activities. Company managers can implement corporate integrity principles, such as whistleblowing, job rotation, and training on corruption and integrity, as a top priority. Managers may also consider using external assurance services to enhance the credibility of sustainability disclosures. Given the high level of activity in enhancing oversight and monitoring the audit committee's function, company management should increase the number of audit committee meetings to gain legitimacy.

Policymakers may consider issuing new laws requiring sustainability disclosure, given its significant benefits for both companies and society. In addition, policymakers need to introduce new requirements for companies to begin publishing standalone sustainability reports. This effort can be supported by emphasizing the importance of disclosure quality and proposing guidelines and frameworks on how to present disclosures interactively through images, charts, and graphs. Finally, investors need to pay more attention to the environmental and social activities of the companies in which they invest. Companies that are able to improve their sustainability reporting will positively impact their market value. This allows investors to benefit from their investments, while companies can also attract more investors through higher-quality sustainability reports.

The potential influence on the quality of sustainability reporting is not limited to the variables examined in this study. Future research could consider new determinants, such as the company's vision and/or mission, organizational culture, management competence, and market pressure. Furthermore, this study only adopted a quantitative method. Although it avoids subjectivity in assessing the quality of sustainability disclosure, it cannot be denied that quantitative information is subject to argument. Future research may include qualitative methods using semi-structured interviews to gather direct insights from CEOs, financial managers, and stakeholders. This approach is highly recommended to produce new evidence on the determinants of sustainability reporting quality.

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