Media Riset Akuntansi, Auditing & Informasi ISSN : 2442 - 9708 (Online)
Vol. 24 No. 2 September 2024 : 122-141 ISSN : 1411 - 8831 (Print)
Doi: http://dx.doi.org/10.25105/mraai.v24i2.19577

FIRM CHARACTERISTICS AND DISCLOSURE OF MATERIALITY ASSESSMENT IN SUSTAINABILITY REPORTS

Rizky Eriandani[1*]
Adventia Evangelia[2]**,**
[1,2]Program Studi Akuntansi, Fakultas Bisnis dan Ekonomika Universitas Surabaya, Jawa Timur, Indonesia
*Korespondensi: rizky.eriandani@staff.ubaya.ac.id

Abstract

This study examines the relevance of financial performance, leverage, corporate governance, and firm size in determining the level of materiality assessment disclosure in sustainability reports. The analysis, which focuses on 177 listed company in Indonesia from 2020 to 2022, resulting in 531 observations, reveals several important findings. The disclosure of materiality assessment in sustainability reports serves as the dependent variable, while the independent factors include firm performance (measured by book and market performance), corporate governance (represented by the audit committee and independent commissioners), firm leverage, and firm size. The study employs ordinal logistic regression to test the data. The empirical findings, which show that the level of disclosure in materiality evaluation is highly influenced by firm performance, audit committee, and firm size, but not by leverage and independent commissioners, have significant implications for businesses and regulators in Indonesia. They offer a relevant perspective on the aspects that can enhance the quality of sustainability reporting procedures, promote transparency and accountability, and engage the academic and professional communities in the field.

Keywords : Sustainability Report; Materiality Disclosure; Financial Performance; Leverage; Corporate Governance; Firm Size.

Abstrak

Penelitian ini mengkaji relevansi kinerja keuangan, leverage, tata kelola perusahaan, dan ukuran perusahaan dalam menentukan tingkat pengungkapan penilaian materialitas dalam laporan keberlanjutan. Analisis yang berfokus pada 177 perusahaan terbuka di Indonesia dari tahun 2020 hingga 2022, dengan total 531 observasi menunjukkan beberapa temuan penting. Pengungkapan penilaian materialitas dalam laporan keberlanjutan merupakan variabel dependen, sedangkan faktor independen meliputi kinerja perusahaan (diukur berdasarkan kinerja buku dan pasar), tata kelola perusahaan (diwakili oleh komite audit dan komisaris independen), leverage perusahaan, dan ukuran perusahaan. Penelitian ini menggunakan regresi logistik ordinal untuk menguji data. Temuan empiris yang menunjukkan bahwa tingkat pengungkapan dalam penilaian materialitas sangat dipengaruhi oleh kinerja perusahaan, komite audit, dan ukuran perusahaan, tetapi tidak oleh leverage dan komisaris independen, memiliki implikasi signifikan bagi bisnis dan regulator di Indonesia. Temuan ini menawarkan perspektif yang relevan tentang aspek-aspek yang dapat meningkatkan kualitas prosedur pelaporan keberlanjutan. mendorong transparansi dan akuntabilitas, sehingga melibatkan komunitas akademis dan profesional di bidang tersebut.

Kata Kunci: Laporan Keberlanjutan; Pengungkapan Materialitas; Kinerja Keuangan; Leverage; Tata Kelola Perusahaan; Ukuran Perusahaan.

JEL Classification : Q56, H26, G34, L25

Submission date:March 2024 *Accepted date: August 2024*

INTRODUCTION

Sustainability reporting aims to demonstrate the commitment of the enterprise to sustainability (Global Reporting Initiative, 2021). The Financial Services Authority (FSA) of Indonesia published POJK No. 51/POJK.03/2017 on Sustainable Financial Application to Financial Services Institutions, Emitent, and Listed Companies, demonstrating the country's concern for sustainable development. Sustainability reports must be prepared by issuers, public enterprises, and financial services organizations and presented either individually or as a component of their annual reports (Otoritas Jasa Keuangan, 2017). According to data published on the ESG Intelligence website, in 2018, there were only 58 public enterprises that published sustainability reports. However, in 2019, the number of public entities that issued sustainability reporting increased significantly by 62.07% or 94 enterprises. This shows the positive impact of the implementation of POJK No. 51 on the publication of sustainability reports by public enterprises in Indonesia. Through the publication of regulations by the OJK, it is expected that sustainability practices and the number of enterprises that publish sustainability reports can be increased to support the formation of accountability to stakeholders (Adhariani & du Toit, 2020).

Amid the demands of various stakeholders, such as governments, stock exchanges, regulators, investors, and others, for better quality information related to the sustainability aspects of enterprises (Global Reporting Initiative, 2021), empirical evidence finds that sustainability reports are the top subject of managerial capture (Farooq & de Villiers, 2020). Managerial capture occurs when a reporting enterprise only reports good performance information or positive news and tries to reduce or even cover up bad performance or negative news as the impact of business operations (Zaman, Bahadar, et al., 2021; Zaman, Nadeem, et al., 2021). Managers try to control the reporting process to build a good image, maintain the status quo, and avoid proper accountability and transparency of the enterprise.

Standard councils like the Global Reporting Initiative (GRI) advised the reporting enterprise to conduct a materiality assessment in light of the current phenomenon in order to lessen the possibility of managerial capture and enhance the caliber of sustainability reports (Global Reporting Initiative, 2021). Since GRI G4 was published in 2013, the focus of the sustainability report is no longer on how much information is provided but rather on providing better disclosure on matters of a material nature (Global Reporting Initiative & ISO, 2014). GRIG4 aims to improve user-friendliness and accessibility by emphasizing the provision of information that is critical to business activities and stakeholders. Materiality, in the context of sustainability reporting, refers to the notion that identifies crucial and pertinent subjects (Global Reporting Initiative, 2016). A materiality assessment aims to identify material social, economic, and environmental problems so that the reporting enterprise can produce quality sustainability reports. Sustainability reports prioritize the communication of material aspects to stakeholders, making social information more critical in decision-making, thereby underlining the significance and value of the audience's work. This is achieved through the idea of materiality (Lubinger et al., 2019).

The firm may define the sustainability report's content in manner which is organized and pertinent to stakeholders due to the materiality assessment process. Therefore, the Standards Board recommends that the rapporteur enterprise include details about the materiality assessment procedure in the sustainability report to provide information on how the reporting officer performs the matter assessment to stakeholders (Global Reporting Initiative & ISO, 2014). It also underscores the integral role of stakeholders in the materiality assessment process, making them feel valued and part of the sustainability reporting journey. Few publications explore materiality disclosure in sustainability reports, especially in Indonesia. Eriandani and Winarno (2024) established that the degree of disclosure serves as a concise explanation of the steps involved in establishing the significance of information in sustainability reports. There is still a significant number of individuals who have yet to include a materiality evaluation matrix. The degree of materiality disclosure in sustainability reports can be evaluated using content analysis techniques (Farooq et al., 2021). Content analysis evaluates disclosures by scoring items disclosed against the established scoring index (Mir et al., 2018). The users of the report will gain insight into the enterprise's materiality assessment process, enabling them to assess how the reporting enterprise identifies significant issues and justifies their inclusion in the sustainability report (Farooq et al., 2021). As a result, report readers can assess how businesses manage materiality assessments, reduce the risk of management bias, and improve the accountability and transparency of sustainability reports.

According to empirical evidence from 178 studies on sustainability reports, economic performance, debt level, corporate governance, and firm size are the most frequently examined factors influencing the volume and quality of sustainability reports (Hahn & Kühnen, 2013). This comprehensive research, which investigated the correlation between the factors influencing the disclosure of sustainability information among 75 non-banking corporate companies listed on the NIFTY100 Index from 2015 to 2019 in India, provides a robust foundation for the findings. The results suggest that sustainability disclosure is adversely affected by financial leverage and profitability. In contrast, it is positively influenced by business size, free flow of cash, state ownership, age, and the use of GRI (Kumar et al., 2023). Research related to the level of materiality disclosure of sustainability reports along with the attributes and performance of business entities that influence the materiality assessment disclosure score was explicitly conducted in 2021(Farooq et al., 2021). Research on 704 business entities that are members of the Gulf Cooperation Council (GCC) for the 2013-2017 period. The research results show that leverage negatively affects the return on asset ratio (ROA). Corporate governance has a beneficial impact on the extent to which materiality evaluations are disclosed. However, firm size and market-to-book ratio do not have any influence, providing a complete picture of the factors influencing sustainability disclosure.

In Malaysia, a study investigating the attributes and performance of enterprises that influenced the level of disclosure of materiality assessments in sustainability reports was conducted on 113 enterprises listed on the Malaysian Stock Exchange in 2016 (Ngu & Amran, 2021). The first attributes and performance of the enterprise used in this study are the characteristics of the board of commissioners consisting of the activity of the commissioners, the independent board of Commissioners, and the size of the council. The study also tested the influence of financial performance on profitability and leverage. The research revealed the positive influence of the activities of the council of commissioners and independent councils on the level of materiality disclosure. In contrast, the board of Commissioners, size of the enterprise, type of industry, leverage, and profitability had no influence. More research needs to be conducted on the influence of leverage attributes and enterprises' profitability on the materiality disclosure level (Farooq et al., 2021; Ngu & Amran, 2021).

The minimal amount of previous research conducted to identify the attributes and performance of the enterprise that influence the level of disclosure of the materiality assessment, especially in Indonesia, makes researchers want to examine this topic further. Based on previous research findings (Hahn & Kühnen, 2013), the researchers wanted to add the attribute of corporate governance to the research variable, as there is no research available that analyzes the relationship of Corporate Governance with the level of disclosure of materiality assessment in Indonesia. Considering the time spent on the research, the enterprise is expected to complete the publication of sustainability reports for the period to be studied, namely 2020-2022, so that researchers can get more data to manage. By doing so, this examination will be helpful to add knowledge related to the attributes and performance of the enterprise that influence the level of disclosure of materiality assessment in Indonesia.

This research aims to gain knowledge about the influence of financial performance (return on asset ratio and market to book ratio), leverage (debt to equity ratio), corporate governance (number of independent board of commissioners and audit committee size), and company size (natural logarithm of total assets) on the level of disclosure of materiality assessments of sustainability reports issued by business entities listed on the Indonesia Stock Exchange in the 2020-2022 period. The study's conclusions add to the limited amount of information available on materiality assessments' disclosure, which are carried out by corporate entities to decide what details to include in sustainability reports. Businesses can become more accountable and transparent in the eyes of the public by improving the quality of disclosure of materiality evaluations.

This research is expected to enhance understanding of sustainability reports, particularly concerning the attributes and performance of business entities that influence the level of disclosure in materiality assessments. The findings of this study have the potential to advance our understanding of sustainability reports in general and materiality evaluation in particular. It is hoped that scholars will be able to conduct studies in the future to learn more. The Financial Services Authority, among other authorities, can use the empirical results of this study as assessment material for creating legislation about sustainability reporting in Indonesia. To raise the caliber of reports that issuers provide to their users, laws about the disclosure of materiality evaluations of sustainability reports in Indonesia may be implemented. The study's findings help issuers comprehend and implement best practices when creating high-quality sustainability reports. This is especially true when explaining how the materiality assessment process works to sustainability report readers.

LITERATURE REVIEW AND HYPOTHESIS

Materiality in Sustainability Reports

The concept of materiality in sustainability reports refers to choosing report subjects based on the significance of the information being provided (Jørgensen et al., 2022). In the context of sustainability, topics considered material may influence stakeholders' decision-making (Jørgensen et al., 2022). The concept of materiality in a sustainability report is as vital as the materiality of a financial report, but it relates to two dimensions: the broad impact and the stakeholder. Compared to the substantiality in a financial statement, the materialities in sustainability reports have more comprehensive coverage of stakeholders, combine the perspective of the past and the future, and are integrated into the organization's overall strategy (AccountAbility, 2013). As a result, considering materiality when choosing themes for sustainability reports is crucial since it impacts a more significant number of stakeholders and has a longer-lasting effect.

The emphasis on materiality in sustainability reporting emerged when the Global Reporting Initiative (GRI) published the G4 guidelines in 2013. The G4 guidelines emphasize materiality and ensure that sustainability reports include data satisfying stakeholder needs (Global Reporting Initiative & ISO, 2014). GRI's guidelines offer comprehensive guidance on determining material aspects and subjects (Global Reporting Initiative & ISO, 2014). A sustainability report's subjects are determined by the implemented principles, including completeness, materiality, sustainable context, and stakeholder inclusivity (Global Reporting Initiative, 2016). Business entities can conduct materiality evaluations through standards committees like GRI. These rules have consequences for generating higher-quality sustainability reports to satisfy stakeholder information needs.

Because of its adaptable nature, the idea of materiality can occasionally be reorganized and reinvented to address shifting demands and obstacles (Edgley, 2014). In 2022, the Global Reporting Initiatives (GRI) will change the definition of materiality for sustainability reports. According to the GRI Universal Standards, an issue is considered relevant if it has a substantial impact on stakeholders' judgments and decisions as well as significant economic, environmental, and social impacts on a business organization (Global Reporting Initiatives, 2022). This approach has received criticism in the form of bias and wrong interpretation caused by bias in selecting stakeholders involved in the materiality assessment process. The stakeholders' selection is based on something other than considering their impact on the economy, society, and environment; instead, it prioritizes the impact on the business entity itself. In the 2021 GRI Universal Standards, *material topics* are defined as those that represent the most significant impact of an organization on the economy, environment, and society, including the impact on human rights (Global Reporting Initiative, 2021). The determination of material themes may no longer be based solely on the influence of stakeholder judgments and decisions. Going forward, the notion of materiality in sustainability reports will be subject to modifications and alterations based on the circumstances and obstacles encountered by corporate organizations.

Hypothesis Development

The Effect of Financial Performance on the Disclosure of Materiality Assessments in Sustainability Reports.

Corporate financial performance is one of the most frequently researched determinants of the level and quality of sustainability reports (Hahn & Kühnen, 2013). Financial performance in terms of profitability is significant for the sustainability of a business (Ngu & Amran, 2021). According to legitimacy theory, companies strive to ensure that their activities and performance are perceived by the norms and values prevailing in society. Therefore, when the company's book performance is good, the company has sufficient resources to disclose materiality information in detail. 'Materiality information' refers to the non-financial data that is significant enough to influence the decisions of stakeholders. Profitable businesses have more financial resources to enhance sustainability initiatives, such as providing stakeholders with sustainability reports that include more significant non-financial information (Ngu & Amran, 2021). The results of previous research provide evidence of the positive influence of the financial performance of business entities on the level of disclosure of materiality assessments (Farooq et al., 2021).

Apart from the profitability dimension, there is a market dimension to assess financial performance from an external perspective (Bianconi & Yoshino, 2017). Business entities can utilize sustainability reports to establish their credibility (Kuzey &

Uyar, 2017). Enterprises' social and economic sustainability must support economic sustainability as a condition of going concern. Therefore, enterprises with better growth are more likely to publish sustainability reports by the directions given by the standard board to legitimize their activities (Kuzey & Uyar, 2017). Previous research found that the market-to-book ratio significantly positively influenced the disclosure of information in sustainability reports (Qaderi et al., 2020).

H_1: Financial Performance Positively Affects the Rate of Disclosure of Materiality Assessments in Sustainability Reports.

The Effect of Leverage on the Level of Disclosure of Materiality Assessments In Sustainability Reports.

Leverage is the debt a business entity holds to obtain (Heniwati et al., 2020). Based on legitimacy theory, an argument can be made that management in business entities with higher leverage levels will use legitimacy strategies to change stakeholders' perceptions, in this case, creditors (Ngu & Amran, 2021). Therefore, management will disclose materiality in the sustainability report to gain legitimacy from creditors. Business entities with a high level of leverage will provide better voluntary non-financial information (Aribi et al., 2018). Through better voluntary disclosure of non-financial information, business entities can gain creditors' trust to obtain future financial loans (Farooq et al., 2021). Empirical evidence shows that business entity leverage has a positive effect on the level of voluntary information disclosure (Aribi et al., 2018), such as materiality assessment information in sustainability reports.

H_2: Leverage Positively Impacts The Level of Disclosure of Materiality Assessments In Sustainability Reports.

The Effect of Corporate Governance on the Level of Disclosure of The Materiality Assessment in The Sustainability Report.

Prior studies have discovered that business entity governance has a major role in setting the sustainability reporting standard and can affect business entity choices about disclosure of materiality assessments (Jain & Jamali, 2016). Better governance enables business organizations to report on sustainability more transparently by disclosing more details about the process of materiality evaluation (Farooq et al., 2021). In order to avoid managerial capture, the board of commissioners must effectively supervise management. This is a hallmark of better governance. In order to attain transparency and accountability, having an independent board of commissioners can promote greater materiality disclosure by bridging the legitimacy gap between stakeholders and management (Ngu & Amran, 2021). An independent board of Commissioners functions as a balancing mechanism because it has greater objectivity in ensuring the business entity acts in the best interests of a diverse group of stakeholders. Previous research has provided evidence of the positive influence of business entity governance as measured using the number of independent Board of Commissioners members on the level of disclosure of materiality assessments (Farooq et al., 2021; Ngu & Amran, 2021). Apart from the independent board of commissioners, the audit committee also influences the quality of sustainability report disclosures (Erin et al., 2022). By providing information on all operations conducted by the business entity, the audit committee will contribute to realizing the principle of transparency (Erin et al., 2022). The audit committee is responsible for sufficiently overseeing management's adherence to the regulations' sustainability reporting guidelines (Erin et al., 2022).

H_3: Corporate Governance Positively Impacts The Level of Disclosure of The Materiality Assessment in The Sustainability Report.

The Effect of Company Size on the Level of Disclosure of Materiality Assessments In Sustainability Reports.

From the legitimacy theory perspective, large-scale enterprises gain greater public oversight and social pressure than smaller enterprises, so larger enterprises will tend to provide broader information (Usman, 2020). Based on the theories of stakeholders, big enterprises are more concerned with disclosing information in sustainability reports to meet stakeholder demands, thereby providing better material disclosures (Ngu & Amran, 2021). Empirical evidence suggests that corporate size positively influences the disclosure of information in sustainability reports (Krisna & Suhardianto, 2016). The researchers formulated the research hypothesis as follows:

H_4: Company Size Positively Influences The Level of Disclosure of Materiality Assessments In Sustainability Reports.

RESEARCH METHOD

Data and Sample

This research is explanatory hypothesis testing research. The positivist paradigm will be applied using a quantitative method. Purposive judgmental sampling, a non-probability sampling technique, was used in this study. In this study, the sample used was a business entity registered on the Indonesia Stock Exchange in the 2020-2022 period, which published sustainability reports consistently and did not experience an equity deficit during the period studied. Using a sample of companies that consistently publish sustainability reports, we can conduct a more effective comparative analysis between companies or industries. This approach ensures that the data is more uniform and comparable, allowing us to draw more meaningful conclusions. Companies with negative equity are excluded from the sample because they often do not reflect the general condition of companies in a particular industry or market. They may represent extreme cases or anomalies that do not fit the profile of a more stable and healthy company. Based on the sample criteria, a research sample of 177 business entities was obtained, with 531 years of observation of the business entity.

Table 1
Variables Definition, Measurement, and Source

Variables	Definition	Measurement
Dependent Variable		
MDISC	Level of disclosure of materiality assessment of sustainability report	Scoring from content analysis of sustainability report
Independent Variable		
ROA	Firm performance – book performance	The ratio of net income to total asset
MTB	Firm performance – market performance	The ratio of share market price to the book value of the shares
DER	Company leverage – capital structure	The ratio of total debt to total equity
ACSIZE	Corporate Governance – audit committee	The number of audit committee members on 31st December
INDBOD	Corporate Governance – independent commissioners	The number of independent commissioners on 31st December
SIZE	Firm size	The natural logarithm of total asset

The dependent variable in this study is the degree of disclosure of materiality assessments. The level of disclosure of materiality assessments is obtained through the score for the level of disclosure of materiality assessments in the business entity's sustainability report. Sustainability reports are scored on a scale of 0 to 5 using a content analysis method based on the standards (Farooq *et al*., 2021) outlined in Table 2. Return-on-asset (ROA) and market-to-book (MTB) ratios are two indicators of financial performance that are used as independent variables in this study. Corporate leverage with the operational definition of the debt-to-equity ratio (DER), corporate governance with the operational definition of the number of independent board of commissioners (INDBOD) and audit committee size (ACSIZE), and company size with the operational definition of the natural logarithm of total assets (SIZE) (Farooq *et al*., 2021).

Table 2
Scoring Criteria for Disclosure of Materiality Assessment

Criteria	Score
No reference is given to the materiality assessment.	0
The rapporteur stated that he had made a substantive assessment but did not provide information on the measures taken.	1
Limited information is provided on the materiality assessment steps through comments or brief descriptions. However, no materiality matrix is given to the user of the sustainability report.	2
Limited information is provided on the materiality assessment measures through comments or brief descriptions. A materiality matrix is given to the user of the sustainability report.	3
Comprehensive disclosure is given of the measures of materiality assessment in the form of a complete explanation of how each step is done, but no materiality matrix is given.	4
Comprehensive disclosure is given of the measures of materiality assessment in the form of a complete explanation of how each step is done, and there is a given materiality matrix.	5

The Specification of Empirical Model

Ordinal logistic regression is used for hypothesis testing with the following equation.

$$MDISC = \alpha + \beta_1 ROA_{i\cdot t} + \beta_2 MTB_{i\cdot t} + \beta_3 DER_{i\cdot t} + \beta_4 ACSIZE_{i\cdot t} + \beta_5 INDBOD_{i\cdot t} + \beta_6 SIZE_{i\cdot t}$$

MDISC is the materiality level of disclosures. ROA represents a return on assets. MTB is the ratio of market value to the book market. DER is total debt divided by total equity. ACSIZE indicates the size of the audit committee. INDBOD is an independent commissioner, and SIZE indicates the size of the company.

RESULT AND DISCUSSION

Results

Descriptive Statistics

Table 3 shows each research variable's minimum, maximum, average, and standard deviation values (Panel A). Return on Asset Ratio (ROA) is an independent variable that describes a business entity's financial performance. The smallest value of Return on Assets (ROA) is -0.28, while the greatest value of ROA is 0.82. The mean value is 0.042, which is less than the standard deviation of 0.082, indicating that the ROA variable has exhibited variability. Market Book Ratio (MTB) describes the financial performance of a business entity from the market side. The minimum value is 0.090, the maximum value is 63.423 and has an average value of 2.567. The least value of DER is 0.016, while the greatest value is 78.609. The mean value of DER is 2.373, and the standard deviation is 4.399. SIZE, which is proxied by the natural logarithm of total assets. Table 1 presents the full nominal value of the asset value. The average value of the total assets of the research sample is Rp. 66,554,333,640,821.5.

The governance, as indicated by the ACSIZE and INDBOD. Table 3 (Panel B) shows that the average company has three audit committee (ACSIZE) members (mode). The minimum number of audit committees owned by the company is two people, and the maximum is eight people. Furthermore, the average company has two Independent Commissioners (INDBOD). The company's minimum number of independent commissioners is one person, and the maximum is seven people. The Materiality Disclosure (MDISC) variable, a crucial aspect in sustainability reporting, describes the level of disclosure of materiality assessment in sustainability reports. The minimum and maximum values of MDISC are the same as the given score range, namely a minimum value of 0 and a maximum value of 5. Table 3 (panel C) shows that of the total 531 data processed, 27.5% (146 data) received a score of '0' for the level of disclosure of materiality assessment (MDISC). Furthermore, 20.7% (110 data) received a score of '3'. Scores of '2' and '5', respectively, have a percentage of 19.8% and 18.6%, or 105 and 99 data. Furthermore, 8.3%, with a total of 44 data, received a score of '4'. The smallest percentage, score '1', has a percentage of 5.1% or 27 data. Therefore, it can be inferred that most of the business organizations included in this study are categorized as deficient in revealing the process of materiality evaluation in their sustainability reports, highlighting the urgent need for improvement.

Table 3.
Descriptive statistics

PANEL A				
	Minimum	**Maximum**	**Mean**	**Std. Deviation**
ROA	-0.279	0.821	0.042	0.082
MTB	0.090	63.423	2.567	5.826
DER	0.016	78.609	2.373	4.399
SIZE	239,408,270,443	1,992,544,687,000,000	66,554,333,640,821.5	218,044,891,161,141
PANEL B - Frequency				
	Minimum	**Maximum**	**Mode**	**Std. Deviation**
ACSIZE	2	8	3	0.764
INDBOD	1	7	2	1.035
MDISC	0	5	0	1.807
PANEL C – Proportion of Materiality Disclosure				
Skor	**N**	**Percentage**		
0	146	27.5%		
1	27	5.1%		
2	105	19.8%		
3	110	20.7%		
4	44	8.3%		
5	99	18.6%		
Total	531	100%		

Pearson Correlation

Table 4 shows the Pearson Correlation coefficient and its significance level at the 1% and 5% levels. At the 5% significance level, there is a correlation between MTB and ROA, SIZE, and INDBOD. In comparison, at the 1% level, there is a correlation between DER and ROA, MTB, SIZE, ACSIZE, and INDBOD, SIZE with ACSIZE and INDBOD, and ACSIZE and INDBOD. ROA has a negative correlation with DER and MTB with SIZE. Apart from these two correlations, it is a positive correlation. From the Pearson Correlation test results, no coefficient with a value greater than 0.8 was found. There is no multicollinearity occurring between the independent variables in the research. In the absence of multicollinearity, it can be concluded that the results of the influence of the independent variable on the dependent variable are not biased, and the ordinal logistic regression model can be used to test the research hypothesis.

Table 4
Pearson Correlation

	ROA	MTB	DER	SIZE	ACSIZE	INDBOD	MDISC
ROA	1						
MTB	.109*	1					
	(0.012)						
DER	-.251**	.239**	1				
	(0.000)	(0.000)					
SIZE	0.010	-.088*	.225**	1			
	(0.816)	(0.044)	(0.000)				

	ROA	MTB	DER	SIZE	ACSIZE	INDBOD	MDISC
ACSIZE	-0.072	-0.074	.172**	.505**	1		
	(0.097)	(0.090)	(0.000)	(0.000)			
INDBOD	0.016	.086*	.127**	.566**	.546**	1	
	(0.710)	(0.048)	(0.003)	(0.000)	(0.000)		
MDISC	.210**	-.091*	-0.040	.338**	.222**	.205**	1
	(0.000)	(0.036)	(0.357)	(0.000)	(0.000)	(0.000)	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Ordinal Logistic Regression

Table 5 presents 2 (two) -2 Log Likelihood values, namely 1776.329 for the intercept-only model and 1683.836 for the final model. The decrease that occurred was significant at 0.000. The model, which includes independent variables, is likely superior to the model with simply an intercept, thus indicating a good fit for the model.

Table 5
Uji Model Fit

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	1776.329			
Final	1683.837	92.493	6	0.000

Conducting a test to determine the impact of each independent variable on the dependent variable reveals that ROA, MTB, and SIZE have a statistically significant effect at five percent. In comparison, ACSIZE has a statistically significant effect at ten percent. The variables ROA, SIZE, and ACSIZE have a notable and favorable impact on the extent of disclosure of materiality assessments. Conversely, the variable MTB (Market-to-Book Ratio) has a considerable negative influence. DER and INDBOD were determined to be ineffective.

Table 6
Ordinal Logistic Regression

	Estimate	Sig.
[MDISC = 0]	8.105	0.000
[MDISC = 1]	8.386	0.000
[MDISC = 2]	9.221	0.000
[MDISC = 3]	10.180	0.000
[MDISC = 4]	10.825	0.000
ROA	7.321	**0.000**
MTB	-0.046	**0.006**
DER	-0.017	0.267
SIZE	**0.279**	**0.000**
ACSIZE	0.158	**0.080**
INDBOD	-0.024	0.392

	Estimate	Sig.
McFadden		0.052
Sig. (Parallel Lines Test)		0.488
Sig. (Pearson)		0.054

According to Table 6, the McFadden model suggests that the independent variables can account for 5.2% of the variation in the level of disclosure of materiality evaluations. Factors outside the research model influence the remaining 94.8%. This work utilizes The Cauchit link function for ordinal logistic regression testing, a choice that is appropriate for the regression model. The results of the parallel lines test are displayed in Table 6, with a significance value of 0.488. The research findings aligned with expectations; the significance level was more significant than 0.05. There are no mistakes in creating category rankings, further reinforcing the soundness of our research methodology.

Table 7

Disclosure Score Mode for Materiality Assessment in Each Industry Sector

Industry	Observation	Mode	Freq.	Percentage
Energy	48	3	18	37.50%
Basic materials	54	0	15	27.78%
Industrials	27	3	13	48.15%
Consumer non-cyclicals	75	2	18	24.00%
Consumer cyclicals	36	0	18	50.00%
Healthcare	30	5	8	26.67%
Financial	171	0	80	46.78%
Properties & real estates	27	3	8	29.63%
Technology	6	0	3	50.00%
Infrastructures	51	2	27	52.94%
Transportation & logistic	6	3	2	33.33%

Based on the information in Table 7, the healthcare sector is the only industry sector with a score of 5 as the data mode in its sector with a percentage of 26.67%. Similar to the information presented in Table 3, most industry sectors have a data mode with a score of 0, namely in the basic materials, consumer cyclical, financial, and technology sectors. The financial industry sector, with the largest total observations of 171 business years, has the most materiality assessment disclosure scores of 0, namely 80 data with a percentage of 46.78%. This high percentage of data with a score of 0 in the financial industry sector suggests a potential lack of materiality assessment disclosure, which could have implications for the sector's financial transparency and risk management. Although the data with a score of 0 in the consumer cyclical and technology industry sectors is not as much as in the financials industry sector, it has a slightly higher percentage (50%).

Discussion

This study explores the impact of financial performance, leverage, corporate governance, and company size on the disclosure of materiality assessments in sustainability reports. The first research hypothesis is confirmed, indicating that the book performance or return on assets (ROA) favorably impacts the extent to which materiality evaluations are included in sustainability reports. These results, in line with the legitimacy theory, suggest that companies are more likely to be transparent in disclosing material information in sustainability reporting. This transparency is a strategic move to uphold or enhance social legitimacy, which is the public's perception that the company operates in a manner that aligns with social expectations. Profitability, as defined by the ability of a corporate entity to generate profits and enhance shareholder value (Sarumpaet & Suhardi, 2020), is a crucial factor. The higher the return on asset ratio of a business entity, the more comprehensive the information regarding the materiality assessment process presented in the sustainability report. Companies that demonstrate robust financial performance or profitability are better equipped to produce high-quality sustainability reports that provide more comprehensive details on materiality assessments (Farooq et al., 2021). Adequate financial resources also play a crucial role in enabling more social activities by commercial organizations that can be documented in the sustainability report (Ngu & Amran, 2021). This emphasis on financial resources encourages the audience about the potential for corporate social responsibility. One such initiative is stakeholder involvement in the materiality assessment procedure, which determines the content of the sustainability report. Adequate financial resources also enable business entities to carry out more social activities that can be conveyed in sustainability reports (Putri *et al*., 2022), including involving stakeholders in the materiality assessment process to determine the content conveyed in the sustainability report.

This study also investigates the impact of market performance (MTB) on the level of disclosure of materiality assessments. The results reveal a notable adverse impact of the MTB on the extent of disclosure regarding materiality assessments. The MTB, which estimates the capital gain or loss shareholders will receive from their profits (Bianconi & Yoshino, 2017), also provides an insight into how investors perceive and evaluate the performance of a business entity. A high MTB value suggests that investors have a positive assessment of the business entity's prospects (Bianconi & Yoshino, 2017). According to the legitimacy argument, which acknowledges the thorough evaluation and credibility assessment by investors, the corporation is less motivated to provide additional information. Theoretical underpinnings are crucial factors in the conclusions. The results of the market-to-book ratio variable test found a substantial adverse effect on the extent of disclosure about materiality assessments conducted by corporate entities. Business entities in Indonesia that are more prepared and confident about future growth tend to be more relaxed in meeting stakeholder demands related to sustainability activities (Jizi, 2016). This underscores the need for greater encouragement from management to disclose more information regarding the materiality assessment process to determine the content presented in sustainability reports.

The second hypothesis in this research posits that a business entity's leverage positively affects the level of disclosure of materiality assessments. Nevertheless, empirical findings indicate that the leverage of business entities has no impact on the disclosure of materiality evaluations. Therefore, the second hypothesis is refuted. The notion holds that businesses use social contracts to try and acquire or preserve legitimacy. Legitimacy is a tool used by businesses to protect resources and revenue in the future (Dissanayake et al., 2019). Business entities will involve stakeholders in the materiality assessment process, beginning with the identification process and prioritization to reveal material sustainability topics for business entities and stakeholders to maintain the legitimacy of business entities, regardless of high or low levels of leverage (Ngu & Amran, 2021).

The third research hypothesis is analyzed using two corporate governance proxies: the audit committee's size (ACSIZE) and the count of independent commissioners (INDBOD). In line with Farooq et al. (2021), the empirical evidence demonstrates that a larger audit committee has a beneficial impact on the extent to which materiality assessments are disclosed in sustainability reports. Effective oversight by the audit committee of management will enhance compliance with sustainability reporting by the guidelines set by the standards board (Erin et al., 2022). Good supervision by the audit committee over management will improve sustainability reporting compliance with the direction of the standards board (Erin et al., 2022). Good corporate governance encourages companies to be more transparent in disclosing material information related to sustainability. This is done to meet public expectations and maintain the company's credibility in the public's perception. Importantly, the audit committee's influence in the supervision of disclosure of sustainability activities, including the disclosure of the process of determining material content in the sustainability report, is more significant than the board of commissioners (Krisna & Suhardianto, 2016), Therefore, increasing the number of audit committees will encourage more effective monitoring of sustainability reporting and can maintain the legitimacy of business entities (Krisna & Suhardianto, 2016). Furthermore, our empirical results demonstrate that the number of independent commissioners (INDBOD) does not significantly impact the level of disclosure of materiality assessments in sustainability reports. This implies that the expected oversight role of the independent board of commissioners in Indonesia may not be the sole determinant of the quality of sustainability reports (Jamil et al., 2021) Consequently, there is a conspicuous absence of engagement and oversight in the process of sustainability reporting. Nevertheless, it is crucial to acknowledge that this discovery may potentially be affected by the research data. Our descriptive statistics indicate that the majority of corporations have only two independent commissioners, which could result in less efficient oversight of social and environmental matters. These consequences emphasize the necessity for additional investigation and possibly alterations in policies within the domain of sustainability reporting, highlighting the potential for improvement and the importance of ongoing research in this area.

Empirical results support the fourth hypothesis, showing that company size positively affects the level of materiality assessment disclosure. Based on legitimacy theory, larger business entities receive better supervision and social pressure. This is because business entities with a larger scale have a more significant influence on the public (Sarumpaet & Suhardi, 2020). Therefore, large business entities provide more extensive information in sustainability reports (Usman, 2020). From a stakeholder theory perspective, the larger the size of a business entity, the greater the attention to disclosing information in sustainability reports. Meeting stakeholder demands and increasing materiality disclosure, is the goal of increasing information disclosure in sustainability reports (Ngu & Amran, 2021). The larger the scale of a business entity, the better the disclosure of materiality assessments carried out. Due to more significant social pressure and supervision, business entities will comprehensively provide information related to the materiality assessment process in sustainability reports.

Apart from contributing to the limited literature regarding the disclosure of materiality assessments carried out by business entities in determining the content or information to be conveyed in sustainability reports, the results of this research can be used by regulators responsible for developing regulations related to sustainability reports as evaluation material. The research results show that the average score for the level of disclosure of materiality assessments in Indonesia still needs to be higher, so further action is needed to improve the disclosure quality. Regulators can develop regulations such as requiring public business entities to carry out external assurance or using sustainability reporting standards as a reference, such as Global Reporting Initiatives (GRI) and Otoritas Jasa Keuangan No. 51/POJK.03/2017 to encourage business entities to make higher quality disclosures regarding their processes. Materiality assessment carried out. Business entities can use the results of this research to obtain information regarding performance and any attributes that can influence the level of disclosure of materiality assessments. Business entities can pay more attention to profitability, business entity size, and audit committee size because these three variables increase the disclosure of materiality assessments.

CONCLUSION, LIMITATION AND SUGGESTION

Conclusion

It is crucial to comprehend which corporate features influence the disclosure of materiality evaluation among reporting entities. Further investigation is required to scrutinize the concept of materiality in sustainability reporting. This study demonstrates a favorable correlation between book performance and the extent of materiality disclosure. In contrast, market performance has an adverse impact. Moreover, the use of leverage, which refers to the use of debt to finance a company's assets, does not influence the determination to reveal significant information. Not all governance proxies have an impact on the disclosure of materiality. The audit committee has a considerable impact. However, the independent board of commissioners has little impact on materiality disclosure. Ultimately, the extent of a corporate entity's size directly correlates with the level of transparency in disclosing information pertaining to the evaluation of materiality in the publicly available sustainability report. To convey the present condition in Indonesia, the study incorporates up-to-date data from annual reports, financial reports, and sustainability reports from 2020 to 2022. Academics can advance this topic in the future for additional investigation.

Limitation

Several obstacles and limitations were found while conducting this study. First, many public business entities should have releasing sustainability reports throughout the study, hence diminishing the number of research samples. Furthermore, between 2020 and 2022, the COVID-19 pandemic occurred, leading to financial challenges and negative equity for numerous commercial enterprises. Hence, it is imperative to eliminate these commercial organizations from the research sample. Finally, this study only tests the influence of four factors on the level of disclosure of materiality assessments. The four independent factors employed can only account for less than ten percent of the variation in the level of disclosure of materiality assessments, which serves as the dependent variable. Simultaneously, there exist other components beyond the scope of the research model.

Suggestion for Further Research

For further research, adding variables and their measurement proxies as determining factors for the level of disclosure of materiality assessments is recommended. For example, Include ownership structure and gender diversity variables in the research model. In addition, it can also add other measurement proxies, such as return on equity or earnings per share to assess financial performance; debt to asset ratio for leverage; frequency of audit committee and board of commissioner meetings for corporate governance; and number of employees for company size. Further research can be conducted following the pandemic period to ensure that the financial state of the business entity has fully recovered from the equity deficit. Furthermore, conducting additional studies can involve analyzing samples of business organizations within the financial sector, as they possess distinct capital structures and characteristics.

BIBLIOGRAPHY

AccountAbility. (2013). *Redefining Materiality II: Why It Matters, Who's Involved, and What It Means For Corporate Leaders and Boards*.

Adhariani, D., & du Toit, E. (2020). Readability of Sustainability Reports: Evidence From Indonesia. *Journal of Accounting in Emerging Economies*, *10*(4), 621–636. https://doi.org/10.1108/JAEE-10-2019-0194

Aribi, Z. A., Alqatamin, R. M., & Arun, T. (2018). Gender Diversity on Boards and Forward-Looking Information Disclosure: Evidence From Jordan. *Journal of Accounting in Emerging Economies*, *8*(2), 205–222. https://doi.org/10.1108/JAEE-05-2016-0039

Bianconi, M., & Yoshino, J. A. (2017). Valuation of the Worldwide Commodities Sector: the Role of Market-To-Book and Return on Equity. *Studies in Economics and Finance*, *34*(4), 555–579. https://doi.org/10.1108/SEF-04-2016-0095

Dissanayake, D., Tilt, C., & Qian, W. (2019). Factors Influencing Sustainability Reporting by Sri Lankan Companies. *Pacific Accounting Review*, *31*(1), 84–109. https://doi.org/10.1108/PAR-10-2017-0085

Edgley, C. (2014). A Genealogy of Accounting Materiality. *Critical Perspectives on Accounting*, *25*(3), 255–271. https://doi.org/10.1016/j.cpa.2013.06.001

Eriandani, R., & Winarno, W. A. (2024). ESG Risk and Firm Value: The Role of Materiality in Sustainability Reporting. *Quality Innovation Prosperity (QIP)*, *28*(2), 16-34. https://doi.org/10.12776/qip.v28i2.2019

Erin, O., Adegboye, A., & Bamigboye, O. A. (2022). Corporate Governance and Sustainability Reporting Quality: Evidence from Nigeria. *Sustainability Accounting, Management and Policy Journal*, *13*(3), 680–707. https://doi.org/10.1108/SAMPJ-06-2020-0185

Farooq, M. B., & de Villiers, C. (2020). How Sustainability Assurance Engagement Scopes are Determined, and Its Impact on Capture And Credibility Enhancement. *Accounting, Auditing and Accountability Journal*, *33*(2), 417–445. https://doi.org/10.1108/AAAJ-11-2018-3727

Farooq, M. B., Zaman, R., Sarraj, D., & Khalid, F. (2021). Examining The Extent of and Drivers for Materiality Assessment Disclosures In Sustainability Reports. *Sustainability Accounting, Management and Policy Journal*, *12*(5), 965–1002. https://doi.org/10.1108/SAMPJ-04-2020-0113

Global Reporting Initiative. (2016). *GRI 101: Foundation 2016*.

Global Reporting Initiative. (2021). *GRI 1: Foundation 2021*.

Global Reporting Initiative, & ISO. (2014). *GRI G4 Guidelines and ISO 26000:2010*.

Global Reporting Initiatives. (2022). *GRI Universal Standards 2021: Frequently Asked Questions (FAQs)*.

Hahn, R., & Kühnen, M. (2013). Determinants of Sustainability Reporting: A Review Of Results, Trends, Theory, and Opportunities in an Expanding Field of Research. In *Journal of Cleaner Production* (Vol. 59, pp. 5–21). https://doi.org/10.1016/j.jclepro.2013.07.005

Heniwati, E., Essen, E., & Hadari Nawawi, J. H. (2020). Which Retail Firm Characteristics Impact On Financial Distress? *Jurnal Akuntansi Dan Keuangan*, *22*(1), 40–46. https://doi.org/10.9744/jak.22.1.40-46

Jain, T., & Jamali, D. (2016). Looking Inside the Black Box: The Effect of Corporate Governance on Corporate Social Responsibility. *Corporate Governance: An International Review*, *24*(3), 253–273. https://doi.org/10.1111/corg.12154

Jamil, A., Mohd Ghazali, N. A., & Puat Nelson, S. (2021). The Influence of Corporate Governance Structure on Sustainability Reporting in Malaysia. *Social Responsibility Journal*, *17*(8), 1251–1278. https://doi.org/10.1108/SRJ-08-2020-0310

Jizi, M. A. M. D. M. (2016). Women on Boards, Sustainability Reporting and Firm Performance. *Sustainability Accounting, Management and Policy Journal*, *7*(3). https://doi.org/10.1108/SAMPJ-07-2015-0055

Jørgensen, S., Mjøs, A., & Pedersen, L. J. T. (2022). Sustainability Reporting and Approaches to Materiality: Tensions and Potential Resolutions. *Sustainability Accounting, Management and Policy Journal*, *13*(2), 341–361. https://doi.org/10.1108/SAMPJ-01-2021-0009

Krisna, D. A., & Suhardianto, N. (2016). Faktor-faktor yang Mempengaruhi Pengungkapan Tanggung Jawab Sosial. *Jurnal Akuntansi Dan Keuangan*, *18*(2). https://doi.org/10.9744/jak.18.2.119-128

Kumar, K., Kumari, R., Poonia, A., & Kumar, R. (2023). Factors Influencing Corporate Sustainability Disclosure Practices: Empirical Evidence from Indian National Stock Exchange. *Journal of Financial Reporting and Accounting*, *21*(2), 300–321. https://doi.org/10.1108/JFRA-01-2021-0023

Kuzey, C., & Uyar, A. (2017). Determinants of Sustainability Reporting and Its Impact on Firm Value: Evidence From The Emerging Market of Turkey. *Journal of Cleaner Production*, *143*, 27–39. https://doi.org/10.1016/j.jclepro.2016.12.153

Lubinger, M., Frei, J., & Greiling, D. (2019). Assessing the Materiality of University G4-Sustainability Reports. *Journal of Public Budgeting, Accounting and Financial Management*, *31*(3), 364–391. https://doi.org/10.1108/JPBAFM-10-2018-0117

Mir, S., Lu, S.-H., Cantor, D., & Hofer, C. (2018). Content Analysis in SCM Research: Past Uses and Future Research Opportunities. *International Journal of Logistics Management*, *29*(1), 152–190. https://doi.org/10.1108/IJLM-09-2016-0200

Ngu, S. B., & Amran, A. (2021). Materiality Disclosure in Sustainability Reporting: Evidence from Malaysia. *Asian Journal of Business and Accounting*, *14*(1), 225–252. https://doi.org/10.22452/ajba.vol14no1.9

Otoritas Jasa Keuangan Republik Indonesia. (2017). Peraturan Otoritas Jasa Keuangan Nomor 51 /POJK.03/2017. In *Otoritas Jasa Keuangan Republik Indonesia*.

Putri, I. H., Meutia, I., & Yuniarti, E. (n.d.). *Faktor yang Mempengaruhi Pengungkapan Materialitas pada Laporan Keberlanjutan*. https://doi.org/10.24843/EJA.2022.v

Qaderi, S. A., Abdulraheem Ghaleb, B. A., & Alhmoud, T. R. (2020). Audit Committee Features and CSR Disclosure: Additional Evidence from an Emerging Market. *International Journal of Financial Research*, *11*(5), 226–237. https://doi.org/10.5430/ijfr.v11n5p226

Sarumpaet, T. L., & Suhardi, A. R. (2020). Financial Performance and Company Size to Influence the Sustainability Report of Companies Listed in Kompas 100 for 2012-2016. *Solid State Technology*, *63*(3). www.solidstatetechnology.us

Usman, B. (2020). CSR Performance, Firm's Attribute, and Sustainability Reporting. *International Journal of Business and Society*, *21*(2), 521–539.

Zaman, R., Bahadar, S., & Mahmood, H. (2021). Corporate Irresponsibility and Stock Price Crash Risk. *International Review of Finance*, *21*(3), 786–820. https://doi.org/10.1111/irfi.12296

Zaman, R., Nadeem, M., & Carvajal, M. (2021). Corporate Governance and Corporate Social Responsibility Synergies: Evidence from New Zealand. *Meditari Accountancy Research*, *29*(1), 135–160. https://doi.org/10.1108/MEDAR-12-2019-0649