



Regulatory Compliance as Substitute Legitimacy: Financial Determinants of Sustainability Reporting Quality in Indonesia's Financial Sector

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Abstract

Background: Indonesia's mandatory sustainability reporting under POJK 51/2017 has transformed financial-sector disclosure practices; however, reporting quality remains uneven, with only 4 of 89 assessed companies achieving an "Excellent" status (OJK, 2023).

Objective: This study examines whether profitability (ROA), leverage (DER), and audit quality (Big Four affiliation) determine Sustainability Reporting Quality (SRQ) among financial-sector firms listed on the Indonesia Stock Exchange during 2020–2023.

Methods: Grounded in Legitimacy Theory and Stakeholder Theory, this study uses a balanced panel dataset of 103 firms (412 observations). SRQ is operationalised as a Sustainability Reporting Disclosure Index (SRDI) covering 61 items from the GRI Universal Standards. A Fixed Effects Model (FEM) with White robust standard errors was selected based on the Chow Test ($F = 4.614$; $p < 0.001$) and Hausman Test ($\chi^2 = 8.278$; $p = 0.041$).

Results: Profitability ($t = -1.920$; $p = 0.151$), leverage ($t = -1.190$; $p = 0.320$), and audit quality ($t = 1.303$; $p = 0.284$) do not demonstrate significant partial effects on SRQ; however, the model is statistically significant overall ($F = 5.277$; $p < 0.001$; $R^2 = 64.42\%$). The significant intercept ($C = 0.489$; $p < 0.001$) indicates the existence of a "regulatory floor," a mandatory minimum baseline of sustainability disclosure (approximately 29 of 61 GRI items) achieved consistently by all firms regardless of their financial characteristics. This condition reflects the coercive isomorphic pressure imposed by POJK 51/2017.

Conclusion: By positioning SRQ as a policy instrument, this study proposes the adoption of graduated, quality-based sustainability governance to strengthen transparency, accountability, and inclusive economic development in emerging economies.

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INTRODUCTION

The global intensification of Environmental, Social, and Governance (ESG) reporting imperatives has reshaped the landscape of corporate accountability in emerging economies. Indonesia presents a particularly compelling case study: through POJK No. 51/POJK.03/2017, the *Otoritas Jasa Keuangan* (OJK) mandated Sustainability Reporting (SR) for all financial-sector institutions, transforming what was previously a voluntary disclosure practice into a regulatory obligation (OJK, 2017; OJK, 2021). This transition from voluntary to mandatory sustainability disclosure constitutes a structural shift with profound implications for both environmental governance and social economic policy. It is important to distinguish Sustainability Reporting (SR), the act of producing a disclosure document from Sustainability Reporting Quality (SRQ),

which refers to the depth, completeness, and comparability of the disclosed information. While SR compliance has increased under mandatory regimes, SRQ improvement is not guaranteed by compliance alone (Christensen et al., 2021).

The urgency of high-quality sustainability disclosure in Indonesia's financial sector cannot be overstated. The International Finance Corporation (2023) projects green investment opportunities in developing markets at USD 24.7 trillion by 2030, with Indonesia holding a potential of USD 16 trillion. However, Indonesia currently captures only a fraction of this potential, partly due to inadequate sustainability reporting quality. Firms with stronger growth trajectories are demonstrably better positioned to leverage green accounting practices to enhance both financial performance and investment attractiveness (Choiriah & Lysandra, 2023).

An internal evaluation conducted by OJK (2023) revealed a stark quality disparity: of the financial-sector companies assessed, merely four out of 89 achieved an 'Excellent' rating for their sustainability disclosures, while a substantial majority approximately 67% were categorized as still requiring significant improvement. The OJK assessment framework evaluates sustainability reports across five dimensions: materiality, completeness, reliability, balance, and comparability broadly consistent with GRI's reporting principles. A report achieves 'Excellent' status only when all five dimensions score at or above the 'good' threshold, requiring not merely the presence but the substantive quality of disclosed information. This gap between regulatory compliance and substantive reporting quality represents a critical challenge for environmental and social economic policy.

The period 2020–2023 presents a unique analytical window. The COVID-19 pandemic imposed severe financial pressures on Indonesia's financial sector, forcing companies to navigate between operational survival and regulatory compliance on sustainability reporting. This context allows examination of a theoretically significant question: do financial conditions profitability, leverage, and audit quality remain relevant determinants of sustainability reporting quality when disclosure is mandated rather than voluntary?

From a social development perspective, sustainability reporting quality constitutes an institutional mechanism for transparency and accountability. Inadequate disclosure depth generates informational gaps between lending institutions and the communities whose livelihoods are shaped by those institutions' financing and investment choices, with environmental and social dimensions being particularly prone to such asymmetries. When 98% of listed banks produce sustainability reports but only 38% meet international quality standards (OJK, 2023), the substantive gap between formal compliance and genuine accountability becomes a pressing concern for social policy.

The academic literature on sustainability disclosure determinants has generally identified profitability Buallay (2022), Dilling (2019), leverage Anh (2024), and audit quality Pasko (2023) and Lee (2023) as significant predictors. However, these findings are predominantly drawn from voluntary reporting environments in developed economies, limiting their transferability to mandatory regulatory contexts in emerging markets. A critical inconsistency in the literature concerns the direction of profitability's effect: whereas Buallay (2022) finds a positive association in voluntary-disclosure settings, Anh (2024) document a null or negative effect under regulatory frameworks, suggesting regime-dependence. Similarly, the debt-monitoring hypothesis Meutia (2022) assumes leverage creates creditor pressure for disclosure an assumption that may not hold in banking sectors where high leverage reflects operational structure rather than financial distress. The interplay between regulatory mandates and financial determinants particularly in sectors characterized by structurally atypical leverage profiles, such as banking thus remains underexplored and represents the core research gap this study addresses.

This study addresses this gap by examining whether profitability (ROA), leverage (DER), and audit quality (Big Four affiliation) determine SRQ among financial-sector firms listed on the Indonesia Stock Exchange (IDX) during 2020–2023. The principal novelty of this study is the empirical identification and theoretical articulation of a 'regulatory floor' effect a phenomenon wherein mandatory reporting obligations institutionalize a uniform minimum disclosure baseline that decouples SRQ from financial determinants.

This concept extends Legitimacy Theory by demonstrating that coercive isomorphism DiMaggio (1983) can supplant performance-driven legitimacy strategies in highly regulated

sectors, constituting a mechanism not previously documented in the Indonesian sustainability reporting literature. Unlike prior studies that frame financial determinants as primary drivers of voluntary disclosure, this study reframes the governance question: in mandatory regimes, the architecture of regulation not firm-level financial signals become the decisive determinant of disclosure quality.

METHOD

Research Design and Sample

A causal-archival research design is adopted, drawing on secondary data extracted from the annual reports and sustainability disclosures of financial-sector entities listed on the Indonesia Stock Exchange (IDX). The population comprises all 189 financial-sector companies across seven sub-sectors: banking, financing, insurance, equity markets, holding and investment, financial administration, and financial technology. Purposive sampling yielded a final sample of 103 companies meeting the criteria of: (1) continuous IDX listing 2020–2023; (2) availability of complete annual and sustainability report data; (3) no missing GRI-relevant disclosures. This produces a balanced panel of 412 firm-year observations.

Table 1. Sample Selection Process

No.	Sample Selection Criteria	Number of Companies	Observations
1	Starting population: Financial-sector companies listed on IDX (7 sub-sectors)	189	Target population
2	Delisted or suspended companies during 2020–2023	-38	Sample reduction
3	Missing annual or sustainability report in any study year	-29	Sample reduction
4	Incomplete GRI checklist or financial data	-19	Sample reduction
	Final Sample Size	103	The company passed the selection
	Final Balanced Panel Observations (103 companies × 4 years)	412	Firm-year observations

The study's sample selection applied purposive sampling criteria to the full population of 189 financial-sector companies across seven IDX sub-sectors: conventional banking, Islamic banking, multifinance, insurance, securities/equity markets, holding and investment companies, and financial technology. Companies were excluded if they: (1) were delisted or suspended from IDX at any point during 2020–2023; (2) did not publish an annual report or sustainability report in any study year; or (3) presented incomplete data for the GRI disclosure checklist or financial variables. The resulting 103-company balanced panel provides 412 firm-year observations, a sample size that satisfies asymptotic statistical requirements and supports the application of the Central Limit Theorem, ensuring validity of t- and F-statistics under the non-normal residual distributions characteristic of financial-sector panel data (Baltagi, 2008).

Data were extracted manually from company annual reports and sustainability reports sourced from the IDX official website and individual company investor relations portals. This archival-secondary data approach aligns with established practice in Indonesian institutional accountability research, wherein secondary disclosures from annual reports and regulatory filings serve as primary evidence for assessing stakeholder-oriented performance dimensions (Akbar & Siti-Nabiha, 2022). The reliance on publicly available documents also ensures replicability, a key methodological standard for panel data studies in sustainability accounting research.

Sustainability Reporting Quality (SRQ) is operationalized as the Sustainability Reporting Disclosure Index (SRDI), computed as the ratio of GRI items disclosed to total applicable items (61 items across GRI 1 General Disclosures, GRI 2 Material Topics, and GRI 3 Topic Standards). Binary scoring is applied per item (1 = disclosed, 0 = not disclosed). Profitability is measured by ROA (Net

Income / Total Assets). Leverage is measured by DER (Total Debt / Total Equity). Audit quality is measured as a dummy variable (1 = audited by Big Four KAP (Deloitte, EY, KPMG, or PwC) through local affiliates; 0 = otherwise).

The SRDI calculation follows: $SRDI = \sum(D_i) / N_j$, where D_i equals 1 if item i is disclosed and 0 otherwise, and N_j represents the total number of applicable GRI items assessed (61 items). This binary content analysis approach is consistent with prior Indonesian sustainability disclosure research Rukmiyati (2023) and Meutia (2022) and is preferred over weighted scoring due to its replicability and reduced subjectivity. ROA is computed as net income divided by total assets, capturing asset-level efficiency of earnings generation. DER is computed as total debt divided by total equity. For financial sector companies, DER naturally reflects high values due to deposit-taking business models, which is accounted for in the interpretation of results (Al Barrak et al., 2023; Gujarati, 2012).

Panel data regression analysis was performed using EViews version 12, following standard panel econometric procedures (Baltagi, 2008). Three models were estimated: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection followed the Chow Test (CEM vs. FEM) and Hausman Test (FEM vs. REM). The selected FEM was subjected to classical assumption tests: multicollinearity (correlation matrix), heteroscedasticity (White Test), and autocorrelation (Durbin-Watson). To comprehensively assess multicollinearity, Variance Inflation Factor (VIF) values were additionally computed: all VIF values fell below 2.0 (VIF_ROA = 1.0020; VIF_DER = 1.0020; VIF_AQ = 1.0001), confirming the absence of multicollinearity among the independent variables (Hair et al., 2019). As a diagnostic robustness check, logarithmic natural (LN) transformation was tested but rejected as it worsened distributional properties (JB increased from 2,166 to 26,306) and reduced explanatory power (R^2 declined from 64.42% to 56.01%). The final model applies FEM with White cross-section robust standard errors to correct for confirmed heteroscedasticity (SE of ROA decreased by 72.5% after correction), ensuring valid statistical inference under non-normal residual distributions via the Central Limit Theorem ($n = 412$).

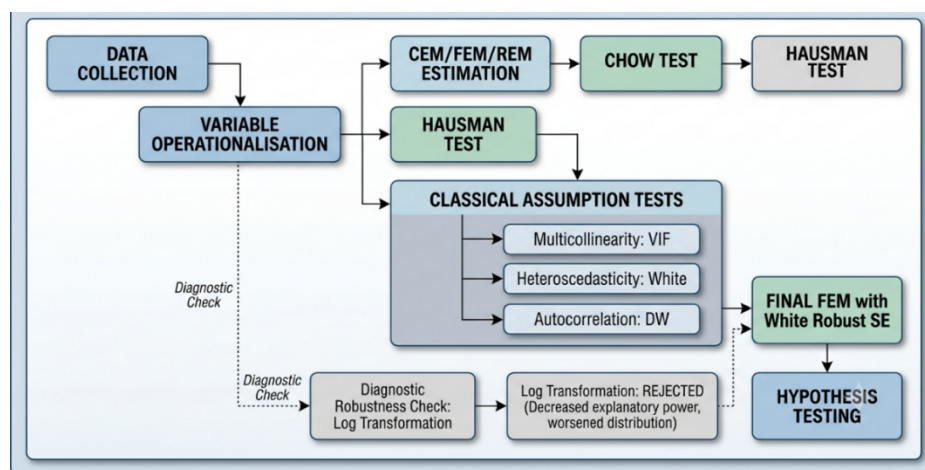


Figure 1. Analytical Procedure Flowchart

Source: Authors' computation from annual and sustainability reports (2020–2023). *Median values: SRDI = 0.4754; ROA = 0.0089; DER = 2.0182; Audit Quality (Dummy) = 0.*

Data Analysis Procedure

Panel data regression analysis was performed using EViews version 12, following standard panel econometric procedures (Baltagi, 2008). Three models were estimated: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection followed the Chow Test (CEM vs. FEM) and Hausman Test (FEM vs. REM). The selected FEM was subjected to classical assumption tests: multicollinearity (correlation matrix), heteroscedasticity (White Test), and autocorrelation (Durbin-Watson).

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RESULTS AND DISCUSSION

Results

Table 1 reveals several noteworthy patterns. The mean SRDI of 0.4776 (approximately 29 of 61 GRI items disclosed) represents a disclosure level hovering just below the 50% threshold. The median SRDI of 0.4754 is slightly lower than the mean, and the skewness coefficient of -0.0882 confirms a mild left-skew, driven by a smaller cluster of firms with very low disclosure (below 0.10), consistent with heterogeneous compliance capacity across sub-sectors. The standard deviation of 0.1510 reflects considerable heterogeneity across firms, despite the uniform regulatory floor imposed by POJK 51/2017.

Table 2. Descriptive Statistics of Research Variables

Variable	Mean	Std. Dev.	Minimum	Maximum	N
SRQ (SRDI)	0.4776	0.1510	0.0164	0.9016	412
ROA (Profitability)	0.0013	0.6085	-8.8956	8.3024	412
DER (Leverage)	2.7938	2.8635	-3.7192	16.0786	412
Audit Quality (Dummy)	0.3908	0.4884	0	1	412

The mean ROA of 0.0013 (approaching zero) reflects the profound financial pressures of the COVID-19 pandemic on Indonesia's financial sector in 2020–2021 (Harymawan et al., 2021). The ROA median of 0.0089, considerably higher than the mean, confirms that the near-zero average is distorted by extreme negative outliers (minimum = -8.8956), signaling a strongly left-skewed distribution — a finding that underscores the appropriateness of the firm fixed-effects FEM approach in controlling for outlier-driven heterogeneity. The DER mean of 2.7938 with a maximum of 16.0786 (PT Bank Tabungan Negara, 2020) exemplifies the structurally elevated leverage inherent to banking operations (median DER = 2.0182), while the minimum DER of -3.7192 reflects a small number of firm-year observations with negative shareholders' equity (technical capital deficiency), a condition that occasionally arises among financial-sector entities during periods of severe earnings pressure. The 39.08% Big Four audit penetration rate reveals that most financial-sector companies rely on non-Big Four auditors, suggesting that ESG-specific audit capacity may not be concentrated in large firms.

Table 2 reveals several noteworthy patterns. The mean SRDI of 0.4776 (equivalent to approximately 29 of 61 GRI items disclosed) represents a disclosure level hovering just below the 50% threshold. This indicates that financial-sector companies, despite being subject to mandatory reporting under POJK 51/2017, disclose slightly less than half of applicable GRI indicators on average. The standard deviation of 0.1510 reflects considerable heterogeneity across firms.

The mean ROA of 0.0013 approaching zero reflects the profound financial pressures of the COVID-19 pandemic on Indonesia's financial sector in 2020–2021 (Harymawan et al., 2021).

Trend analysis of annual SRDI means reveals a consistent though decelerating upward trajectory: 0.4318 (2020), 0.4721 (2021, +9.3%), 0.5014 (2022, +6.2%), and 0.5050 (2023, +0.7%). The convergence toward a stagnation plateau in 2023 suggests a 'compliance ceiling' where firms have optimized formal compliance without substantively improving disclosure quality — a pattern consistent with Sebrina (2023) observations on sustainability disclosure in mandatory regimes.

Item-level analysis of GRI disclosures reveals a pronounced polarization between dimensions. Social dimension items (GRI 401 Employment, ~75%; GRI 404 Training & Education, ~72%) dominate, driven by labor law obligations and POJK 51/2017 requirements. Governance items (GRI 2 General Disclosures, ~68%) exhibit relatively high compliance. In stark contrast, environmental dimension items — GRI 302 (Energy), GRI 305 (Emissions), GRI 303 (Water), GRI 301 (Materials), and GRI 306 (Waste) — hover below 20%. Most critically, GRI 304 (Biodiversity) is disclosed by fewer than 5% of sampled firms. This environmental disclosure deficit is particularly concerning given Indonesia's ecological sensitivity and the growing importance of

environmental risk in financial sector portfolios. The financial sector's status as a service industry with limited direct environmental footprint may rationalize lower environmental disclosure, but the near-total absence of biodiversity reporting reflects a significant sustainability governance gap.

Model Selection Results

Results of the Chow Test generated a Cross-section F-statistic of 4.6136 with degrees of freedom (102, 306) and an associated probability of 0.000, leading to rejection of the null hypothesis and confirmation that FEM provides superior fit over CEM. The Hausman Test produced a Chi-square statistic of 8.2782 (d.f. 3; $p = 0.041$), rejecting the null in favor of FEM over REM. The transition from CEM to FEM resulted in a dramatic improvement in model explanatory power (R^2 from 9.71% to 64.42%) and resolution of serial correlation (Durbin-Watson from 0.854 to 2.131), confirming the substantive importance of firm-specific fixed effects in explaining sustainability reporting quality variation.

Main Regression Results

Table 3. FEM with White Cross-Section Robust Standard Errors (Dependent: SRDI)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
Constant (C)	0.4893	0.0200	24.460	0.0001***	Significant
ROA (Profitability)	-0.0054	0.0028	-1.920	0.1507	H1 Rejected
DER (Leverage)	-0.0070	0.0059	-1.190	0.3197	H2 Rejected
AQ (Audit Quality)	0.0202	0.0155	1.303	0.2835	H3 Rejected
$R^2 = 0.6442$ $\text{Adj. } R^2 = 0.5221$ $F\text{-statistic} = 5.2771***$ $DW = 2.131$					

The estimated regression equation is: $SRDI = 0.4893 - 0.0054 ROA - 0.0070 DER + 0.0202 AQ + \varepsilon$. In standard econometric convention, a variable is deemed statistically significant when its probability falls below $\alpha = 0.05$ (Gujarati, 2012). The simultaneous F-test ($F = 5.277$; $p < 0.001$) confirms collective model significance, while $R^2 = 64.42\%$ indicates that firm-specific fixed effects and the three financial variables together explain nearly two-thirds of SRQ variation. This high explanatory power primarily emanates from the firm fixed effects component, not from the financial variables a finding of substantial policy significance.

To contextualize practical significance beyond statistical significance, 95% confidence intervals (CI) and standardized effect sizes (β^*) are reported: ROA: CI[-0.0109, 0.0001], $\beta^* = -0.018$; DER: CI[-0.0186, 0.0046], $\beta^* = -0.025$; AQ: CI[-0.0103, 0.0507], $\beta^* = 0.054$. All three CIs span zero, confirming statistical non-significance. The small, standardized effect sizes confirm that even if the effects were significant, their practical magnitude would be negligible relative to the variance captured by firm fixed effects.

The Regulatory Floor: Core Contribution

The institutional mechanism underpinning this regulatory floor can be understood through DiMaggio (1983) concept of isomorphic pressure, specifically coercive isomorphism: when regulatory authorities impose uniform standards, organizations converge toward common practices due to external compulsion rather than internal motivation. POJK 51/2017's mandatory framework operates precisely through this mechanism, transforming sustainability reporting from a discretionary legitimacy strategy into a compliance obligation. This regulatory floor phenomenon is not unique to Indonesia. Comparable dynamics have been observed in other mandatory reporting jurisdictions: in the European Union, the Non-Financial Reporting Directive (NFRD, 2014) produced similar floor-level convergence among large companies, while substantive quality improvements remained concentrated among firms with stronger internal governance capacity (Christensen et al., 2021).

In ASEAN, where sustainability reporting has progressively become mandatory across multiple markets, comparable homogenization of floor-level compliance has been documented, alongside persistent quality gaps in environmental dimensions (Moawad, 2026). These cross-jurisdictional parallels suggest that the regulatory floor is a structural feature of coercive

isomorphic regimes rather than a phenomenon specific to Indonesia's institutional context. The implication for policy design is significant: if regulatory floors emerge universally under mandatory regimes, then improving SRQ requires graduated, quality-differentiated mandates rather than binary compliance requirements.

This interpretation carries significant implications for the design of sustainability governance in emerging economies. If the primary driver of disclosure quality is regulatory obligation rather than financial incentive, then policy interventions aimed at improving SRQ must focus on the architecture of the regulatory mandate itself (its specificity, enforceability, and quality metrics) rather than on firm-level financial variables. The finding that approximately 29 of 61 GRI items represent a universal compliance baseline across all 103 sampled companies, irrespective of financial profile, provides the clearest empirical evidence of this institutional floor (OJK, 2017; OJK, 2021).

This finding advances Legitimacy Theory in a critical direction. Classic legitimacy theory predicts that firms use sustainability reporting strategically to manage stakeholder perceptions in response to financial performance signals (Suchman, 1995). The regulatory floor documented here suggests that, in mandatory regimes, regulatory compliance itself becomes the primary legitimacy mechanism, effectively substituting for performance-based legitimacy signals. The OJK's enforcement capacity transforms sustainability reporting from a voluntary legitimacy strategy into a compliance obligation, decoupling disclosure quality from financial conditions.

Discussion

H1 (Profitability → SRQ): Profitability exerts no significant partial effect on SRQ ($\beta = -0.0054$; $p = 0.151$), rejecting H1. The near-zero mean ROA (0.0013) during the COVID-19 period reflects systemic financial stress across the sector. However, the critical insight is institutional: even firms with negative ROA such as PT Onix Capital Tbk (OCAP), ROA = -8.8956 in 2022 continued to publish sustainability reports meeting the POJK 51/2017 floor. Conversely, high-profitability firms such as PT Bank Central Asia Tbk (BBCA, ROA = 0.0312) showed similar SRDI profiles to lower-profitability peers. This decoupling of financial capacity from reporting quality under mandatory regulation is consistent with Anh (2024) and Harymawan (2021), but diverges from voluntary-regime studies by Buallay (2022) and Tsalis (2020), reinforcing the regime-dependence of this relationship.

H2 (Leverage → SRQ): Leverage shows no significant effect on SRQ ($\beta = -0.0070$; $p = 0.320$), rejecting H2. This finding requires careful contextualization. Descriptive analysis reveals a paradox: firms with above-median DER (> 2.0182) exhibit higher mean SRDI (0.5124) than low-DER firms (0.4427), a difference of 6.97 percentage points consistent with Legitimacy Theory's accountability-through-debt prediction. However, this difference does not attain statistical significance in the FEM, because the financial sector's high leverage reflects normal business operations, deposit-taking creates statutory liabilities, rather than elevated creditor-monitoring pressure. PT Bank Mandiri (DER = 5.2961, 2023) and PT Bank Negara Indonesia (DER = 5.1789, 2023) illustrate that such leverage levels do not generate proportional SRDI improvements. This finding aligns with Al Barrak (2023) and Meutia (2022), demonstrating that legitimacy mechanisms operate differently in highly regulated sectors where government supervision already provides baseline accountability guarantees.

H3 (Audit Quality → SRQ): Big Four audit affiliation shows a positive but statistically insignificant effect ($\beta = 0.0202$; $p = 0.284$), rejecting H3. Descriptively, Big Four-audited firms (39.08% of the sample) attain a marginally higher mean SRDI (0.5153) than non-Big Four firms (0.4533), a gap of 6.2 percentage points. However, POJK 51/2017's uniform reporting standards, applicable regardless of auditor type, appear to have equalized floor-level compliance across audit quality tiers. The 'Big Four dilemma' identified by Lee (2024) wherein non-Big Four auditors can match or exceed Big Four performance in sustainability contexts is consistent with this finding. The binary dummy proxy's limitations in capturing auditor specialization in ESG assurance further contribute to the null finding. Endogeneity concerns also arise: firms selecting Big Four auditors likely possess stronger internal governance that independently drives higher SRDI, making causal attribution difficult.

An alternative interpretation draws on the concept of audit quality convergence under

uniform regulatory regimes. When POJK 51/2017 prescribes standardized sustainability reporting formats and minimum content requirements applicable to all licensed financial institutions, the quality-enhancing role typically attributed to Big Four auditors becomes structurally constrained. Both Big Four and non-Big Four audited companies are subject to the same OJK oversight framework, effectively equalizing the regulatory quality floor and diminishing the marginal contribution of auditor type to disclosure outcomes. This finding resonates with Shinta (2023) observation that, among SRI-KEHATI Index companies in Indonesia, audit quality demonstrated no significant effect on sustainability reporting assurance a result similarly attributed to the homogenizing effect of regulatory standards.

This interpretation is directly corroborated by Indonesian evidence: Shinta (2023) found that among SRI-KEHATI Index-listed companies a group presumptively committed to sustainability, Big Four audit affiliation yielded no significant effect on sustainability reporting assurance quality, while profitability and firm size remained the dominant drivers. The parallel between their null finding and this study's result reinforces the argument that regulatory homogenization overrides the quality-differentiating role of auditor type. Future research employing more granular proxies such as audit tenure, sustainability-specific assurance engagement, or auditor industry specialization scores may better capture the nuanced dimensions of audit quality in sustainability contexts (Al-Shaer, 2020; L. Y. Y. Lee et al., 2024).

Environmental Disclosure Gap: Policy Implications

Beyond the statistical findings, this study documents a structurally significant environmental disclosure gap with direct implications for social and environmental governance policy. Financial-sector firms consistently under-disclose environmental items: GRI 302 (Energy) < 20%, GRI 305 (Emissions) < 20%, GRI 303 (Water) < 20%, and GRI 304 (Biodiversity) < 5%. This is alarming in the context of Indonesia's climate vulnerability, projected climate-related economic losses include IDR 1.29 trillion/ha/year in Cirebon, IDR 6.1 trillion in Semarang by 2030, and > IDR 4.7 trillion in North Jakarta from rising sea levels (KLHK, 2021).

Financial institutions play a pivotal role in climate risk through their lending and investment decisions. A bank that finances fossil fuel projects or climate-vulnerable infrastructure without disclosing associated environmental risks creates material information asymmetries for depositors, investors, and affected communities. The near-total absence of biodiversity disclosure among Indonesia's financial-sector companies therefore represents not merely a reporting gap, but a governance failure with real social economic consequences. POJK 51/2017's current regulatory floor evidently does not reach the substantive environmental disclosure depth needed to enable stakeholder-informed decisions.

CONCLUSION

This study examined whether profitability (ROA), leverage (DER), and audit quality (Big Four affiliation) determine sustainability reporting quality among 103 Indonesian financial-sector companies over 2020–2023. Using a Fixed Effect Model with White robust standard errors on 412 balanced panel observations, no partial variable achieved statistical significance. This null result is not a failure of the study design but rather its substantive contribution: it reveals that Indonesia's mandatory sustainability reporting regime under POJK 51/2017 has institutionalized a 'regulatory floor' ($C = 0.489$; $p < 0.001$) — a uniform minimum disclosure baseline that decouples SRQ from financial performance across all sampled firms, irrespective of their financial conditions.

Theoretical Contribution. This study enriches Legitimacy Theory by providing empirical evidence that government-mandated reporting frameworks can operate as an institutional substitute for performance-driven legitimacy, a mechanism theorized but not empirically documented in prior Indonesian sustainability accounting research. Through the lens of coercive isomorphism DiMaggio (1983), mandatory disclosure regimes create structural uniformity in reporting behavior that overrides firm-level financial signals. This finding extends Christensen (2021) comparative framework by demonstrating that mandatory regime effects can be observed even at the within-sector level in emerging economies, not only across jurisdictions.

Policy Implications. The policy implications are threefold. First, the OJK should develop a

differentiated Sustainability Reporting Quality Index (SRQI) based on GRI Universal Standards — moving beyond binary compliance assessment toward substantive quality measurement. Second, sector-specific minimum environmental disclosure mandates should be introduced, particularly for emissions (GRI 305), energy (GRI 302), and biodiversity (GRI 304), given the documented near-zero disclosure rates. Third, the stagnation in SRDI growth between 2022 and 2023 (only 0.7% increase) signals that the current regulatory architecture has reached its effectiveness ceiling, necessitating graduated requirements and enforcement escalation mechanisms.

Limitations and Future Research. Limitations include the binary audit quality proxy's inability to capture auditor ESG specialization, the absence of moderating variables such as firm size and board composition, and the study's confinement to the financial sector. Future research should incorporate governance variables (ESG committee, board diversity), alternative audit quality proxies (audit tenure, audit fee, industry specialization), extend the temporal horizon post-2023 to capture POJK 51/2017's maturation effects, and conduct cross-sectoral comparisons to examine whether the regulatory floor phenomenon generalizes beyond financial services.

Environmental Governance Implications. From a social and environmental governance perspective, the most consequential finding is the documented environmental disclosure gap. The near-total absence of biodiversity disclosure (GRI 304, < 5%) and the consistently low reporting on energy (GRI 302), emissions (GRI 305), and water (GRI 303) among Indonesia's financial-sector companies reveals a structural disconnect between regulatory compliance and substantive environmental accountability.

Financial institutions are uniquely positioned to catalyze or hinder Indonesia's green transition through their lending, insurance, and investment portfolios. Closing this gap requires stronger OJK mandates, capacity-building initiatives, and sector-specific environmental disclosure standards calibrated to the indirect environmental footprint of financial intermediaries (KLHK, 2021; IFC, 2023; OJK, 2021).

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AUTHOR CONTRIBUTION STATEMENT

All authors contributed equally to this work. Author 1: Conceptualization, Methodology, Formal Analysis, Writing Original Draft. Author 2: Data Curation, Investigation, & Editing, Supervision. All authors have read and agreed to the published version of the manuscript.

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