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Sustainability Report Quality Evaluation: Implementation and Critical Factors from a Stakeholder Perspective

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ABSTRACT

The primary goal of this study is to offer a comprehensive understanding of the implementation of sustainability reporting and the factors that impact its quality, with a specific focus on the stakeholders' perspective. Given the expanding role of companies in addressing social and environmental obligations, this subject has gained increasing relevance. The study employs a literature review method and encompasses quantitative and qualitative analyses of empirical data spanning a decade. The research findings illustrate noteworthy advances in the quality of sustainability reporting across diverse industries, particularly considering stakeholder interests and expectations. This study's findings are expected to significantly enrich our future understanding and application of sustainability reporting.

Keywords: Sustainability; Stakeholders, Reporting

INTRODUCTION

A company is a business entity established to generate profit and is responsible to stakeholders. However, in the era of social, economic, and environmental issues have received significant attention. Because companies must have good reciprocal relationships with the community, they are expected to prioritise profitability and the interests and welfare of the community. In practice, companies can report activities related to interests outside the company through sustainability reports. The purpose of disclosing sustainability reports is to determine whether the company is committed to the welfare of society, not merely pursuing maximum profit.

Stakeholders play a crucial role in sustainability reporting, as it measures and discloses company activities as a responsibility to all stakeholders regarding the organisation's performance in realising sustainable development goals. Sustainability reports will be used to describe economic, environmental, and social impact reporting (GRI, 2013). Companies can optimise their company value by examining the social ties within and between company stakeholders, including the public, investors, employees, and shareholders. Disclosure of sustainable reporting must provide information to the public in a transparent manner to improve and demonstrate a sense of responsibility for the welfare of society and the environmental impacts that affect the company's long-term operations for sustainable development.

The demand for disclosure of sustainability reporting arises because of the main issues that are always debated in various circles of society, namely the issue of "Green Concern" and "Social Concern", which are issues related to multiple cases of environmental pollution for human social life (Safitri & Suwitho, 2015). In the context of the Company, social and environmental responsibility is an essential aspect as a solution to the impacts caused, which include the use of natural and human resources, emissions produced, and waste from operational activities. In the past, companies only focused on maximising profits, but now, they realise the importance of sustainability and take steps to consider the welfare of employees and the planet. This concept, known as the triple bottom line, emphasises the balance of economic, social, and environmental considerations so that companies can grow sustainably (Elkington, 1994).

The World Commission on Environment and Development (WCED) identified the economic, environmental and social dimensions as the three main pillars of sustainability reporting in the Brundtland Report (1987). Elkington uses three categories, or three Ps, to categorise its CSR offerings: Revenue, nature, and people (Putri et al., 2022).

In its current disclosure, the sustainability report refers to the reporting standards prepared by the Global Reporting Initiative (GRI). Companies must meet reporting indicators to provide a balanced and fair picture of positive and negative contributions to sustainable development. Disclosure of sustainability reports is assessing, disclosing information, and being responsible for a company's ability to achieve sustainable development goals (Diono et al., 2017). Disclosure of sustainability reports plays an essential role in the company's sustainability because it can meet the demands of stakeholders in carrying out activities that affect environmental and social aspects and maintain the company's best reputation in the eyes of the public (Ariyani et al., 2018).

The environment is one of the main stakeholders that can directly influence a company's activities, especially for companies that have the potential to damage the surrounding environment in carrying out their operational activities. Companies with the potential to damage the environment must be able to adapt, and the company must continuously adjust to changes in regulations, social, environmental, and technology (A, Yosua & Herlin, 2022). Companies with the potential to damage the environment tend to get more pressure than other companies, especially demands from the community around the company's environment to regenerate the environment that has been damaged due to the company's operational activities. The company will try to overcome this by carrying out social and environmental responsibility activities, which are then reported in a transparent sustainability report (Rudyanto & Siregar, 2018).

Stakeholders are parties with interests or roles in a company either directly or indirectly, and these parties can influence or be influenced by the company. In addition to the environment, of course, many stakeholders must be considered in the preparation of sustainability reports. Manetti (2011) emphasised the importance of organisations considering stakeholders' opinions when preparing sustainability reports. This shows that in non-financial activities or CSR, companies must consider stakeholders' interests by being involved in preparing sustainability reports.

Failure to identify and engage stakeholders can result in sustainability reports that lack credibility in the eyes of the company's stakeholders. Meanwhile, systematic stakeholder engagement can increase stakeholders' acceptance of sustainability reports (Gunawan & Yudani, 2017). In other words, the credibility and quality of sustainability reports are closely related to stakeholder engagement conducted before or during the report's preparation.

LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

Stakeholder Theory

The term stakeholder was first introduced by the Stanford Research Institute (SRI), which was then developed by Freeman 1984 in his study entitled Strategic Management: A Stakeholder Approach. Freeman defines stakeholders as groups or individuals who can influence or be influenced by achieving an organisation's goals. Stakeholder theory states that companies voluntarily disclose information about their economic, social and environmental performance to meet and gain recognition from stakeholders (Deegan, 2004).

In its implementation, stakeholders are not only limited to shareholders but also include every individual, group, or organisation interested in an entity or company. This means that various parties involved, both directly and indirectly, have a role in influencing or being influenced by the decisions and activities of an organisation. Stakeholders can come from various levels of society and have various interests that need to be considered in the management and development of the company. Company stakeholders are divided into internal and external, where internal parties are company managers and company owners, and external parties are shareholders, creditors, debtors, customers, suppliers, investors, government, and society (Pertiwi, 2020).

Stakeholder theory is further discussed regarding the position of stakeholders with a solid and vital role in the company's sustainability. The company will not survive without a relationship with stakeholders. The company's needs and desires come from stakeholders, such as resources for company activities, loans for operational costs, and income to obtain profits. Therefore, the company's survival depends on stakeholder support, so the company's activities seek this support (Roviqoh & Khafid, 2019).

The concept of stakeholder theory assumes that a company's existence requires support from all parties with related interests. This means that this theory assumes that a company's success and survival not only depend on the needs and expectations of stakeholders but also require active and collaborative support from all parties involved. This emphasises the importance of understanding, managing, and meeting the various interests that exist, both internal and external to the company, to achieve sustainable and harmonious goals in the business environment.

So, company activities must also pay attention to stakeholder approval because there is a moral commitment from company management to stakeholders (Damayanti & Hardiningsih, 2021). Therefore, stakeholder theory is adopted as the primary basis for examining the impact of pressure from stakeholders, including environmental pressure, employee pressure, consumer pressure, and shareholder pressure, on the quality of sustainability reports. This approach was chosen because stakeholder theory recognises that a company's success depends not only on the needs and expectations of the parties involved but also emphasises the collaborative role and active support of all stakeholders. By analysing the influence of stakeholder pressure on the quality of sustainability reports, it is hoped that deeper insights can be obtained regarding the company's contribution to sustainability and social responsibility in the business environment.

Agency theory

Agency theory, according to (Jensen and Meckling, 1976), is an agency relationship as a work contract of delegation of authority from the company owner (principal) to another party employed (agent) (Novitasari et al., 2021). This agency concept encourages companies to make disclosures, both mandatory and voluntary. This encouragement is shown as a driving tool to reduce agency costs caused by agency conflicts and information asymmetry. This agency problem arises from the conflict or difference of interest between the principal and agent (Jannah & Kurnia, 2016).

As an agent, the manager must be responsible for the principal's profit, while the manager expects compensation according to the contract. The company has two different interests, and each party tries to achieve or maintain the company's prosperity as desired (Aziz, 2014).

In this context, sustainability reports, as an integral part of a company's voluntary disclosure initiative, become a significant instrument to address the information gap. In other words, sustainability reports are not only a transparency tool but also an essential means of filling the information gap that may arise between companies and stakeholders. Through sustainability reports, companies provide a comprehensive picture of their impacts on the environment, society, and other aspects of sustainability, opening the door to better understanding and transparent dialogue with stakeholders.

Sustainability Report

Sustainability report measures and discloses information about an organisation's economic, social, and environmental activities to the public, allowing internal and external stakeholders to assess its performance against sustainable development goals (Yi & Yu, 2010). At present, the concept of sustainability reporting has developed very rapidly, as evidenced by the increasing number of companies that publish sustainability reports every year; this is due to companies' increasing awareness about the importance of transparency of information about the impact of their business activities on society. Five factors make the concept of sustainability report very important, namely the availability of funds, environmental mission, social responsibility, implementation in policy, and having a benefit value (Adhipradana & Daljono, 2013)

METHODS

This type of research is descriptive research. The data used is secondary data. The population of this study is all research results and research articles on sustainability reports quality and evaluation, and the sample used is research that uses data between 2019 and 2023. The data collection technique for this study uses archival data collection techniques in the form of research results and research articles published through search results on Google and selected based on the keyword sustainability reports and stakeholders. The data analysis method uses a descriptive qualitative approach through a literature review by presenting the results of the Sustainability Reports Quality And Evaluation Research: Implementation And Critical Factors From A Stakeholder Perspective.

RESULTS

1. **The influence of employee stakeholders on the quality of sustainability reports**
   Employees can directly influence company activities, such as profit and revenue. Employees are very interested in the company's stance on sustainability strategy because their rights and interests are closely related to the company's perspective (Mnif Sellami et al., 2019). The results of the study show that company employees do not influence the quality of the sustainability report, so it can be said that company employees cannot influence the quality of information disclosure in the sustainability report according to the results disclosed (Alfajar, 2024; Darmawan, 2023; Sriningsih & Wahyuningrum, 2022; Lulu, 2020; Rudyanto & Siregar, 2018; Kasanah, 2024).

2. **The influence of environmental stakeholders on the quality of sustainability reports**
   Companies operating in industries with higher environmental impacts tend to experience more significant pressure related to sustainability issues that must be published more transparently than those with lower environmental impacts. This is because the company tries to gain legitimacy from the community around it and support from stakeholders (Branco & Rodrigues, 2008).
   The results of the study show that the corporate environment has a positive influence on the quality of the sustainability report, so it can be said that the corporate environment can influence the disclosure of information in the sustainability report according to the results disclosed (Alfajar, 2024; Darmawan, 2023; Sriningsih, 2022; Lulu, 2020). This is in contrast to the results of the study by Sriningsih & Wahyuningrum (2023), which stated that the corporate environment does not affect the quality of disclosure of sustainability reports. It can be concluded that the company is in an environment that is indirectly related to the environment.

3. **The influence of shareholder stakeholders on the quality of sustainability reports**
   The study's results show that the company's shareholders have no influence on the quality of the sustainability report, so according to the disclosed results, shareholders have no influence on the disclosure of information in the sustainability report (Alfajar, 2024; Darmawan, 2023; Sriningsih & Wahyuningrum, 2022; Lulu, 2020; Rudyanto & Siregar, 2018; Kasanah, 2024).

4. **The influence of government stakeholders on the quality of sustainability reports**
   The government is one of the stakeholders that play a significant role in suppressing and influencing the operational activities of a company because the government has the power and is the highest institution in making decisions and regulations that are followed by various parties (Eryadi et al., 2021). The results of the study show that the government does not influence the quality of the sustainability report, so it can be said that there is no influence of government pressure on the disclosure of information in the sustainability report according to the results disclosed (Alfajar, 2024; Darmawan, 2023; Sriningsih & Wahyuningrum, 2022; Lulu, 2020; Rudyanto & Siregar, 2018; Kasanah, 2024).

5. The influence of media stakeholders on the quality of sustainability reports

The results of the study show that media or influence influences the quality of sustainability reports, so it can be said that there is no company influence on the disclosure of information in the sustainability report according to the results disclosed (Alfajar, 2024; Darmawan, 2023; Sriningsih & Wahyuningrum, 2022; Lulu, 2020; Rudyanto & Siregar, 2018). This is different from the results of Kasanah's (2024) study, which showed different research results that showed that media or influence did not influence the quality of sustainability report reporting.

6. The influence of consumer stakeholders on the quality of sustainability reports

The results of the study show that consumers have a positive influence on the quality of sustainability reports, so it can be said that there is a relationship between company consumers and the disclosure of information in sustainability reports according to the results disclosed (Alfajar, 2024; Darmawan, 2023; Sriningsih & Wahyuningrum, 2022; Lulu, 2020; Rudyanto & Siregar, 2018). This differs from the results of the study by Sriningsih & Wahyuningrum (2024), which showed different research results that showed that consumers do not influence the quality of sustainability report reporting.

CONCLUSION

Disclosure and quality of public company sustainability reports are suitable for stakeholders to know more about the company, especially in the non-financial sector. According to the results of this study, companies that have high visibility in terms of media exposure and are also directly related to the community and consumer environment can be influenced by the quality of quality sustainability reports. It can be concluded that a quality sustainability report is an organisation's commitment to sustainability towards stakeholders.

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