



Internal and External Pressures on Sustainability Report Disclosure

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ABSTRACT

Stakeholders have a role in determining company performance including sustainability report disclosure. Internal and external stakeholder pressures affect SR disclosure such as internal pressure from employees and external pressure from investors, consumers, and the environment. This study used a sample of 135 companies that were members of ASRRAT from 2018 to 2021 with purposive sampling. The results of the study showed that internal pressure from employees, and external pressure from investors and the environment had a positive influence on sustainability report disclosure, while consumer pressure did not affect SR disclosure.

Keywords: *Internal and external pressures, Sustainability Report*

1. INTRODUCTION

According to [1], Companies generally have the goal of maximizing profits in order to improve the welfare of stakeholders. The number of stakeholders owned by a company makes the company's responsibility greater. Companies are required not only to be profit-oriented but also to be able to fulfill social and environmental responsibilities [2]. The concept developed by Elkington (1997) is called the Triple Bottom Line (3P) concept which includes aspects such as economic, social and environmental. In this context, 3P refers to important elements which include social justice, environmental quality and economic prosperity [3].

Several cases in Indonesia are still related to environmental pollution cases. One example is PT Pertamina Hulu Energi Offshore North West Java (ONWJ) which is responsible for the Pertamina oil spill and gas bubbles produced from drilling off the coast of Karawang, West Java, where nine villages were negatively impacted by environmental damage as a result of the incident [4]. The company has not paid attention AMDAL (Analisis Mengenai Dampak Lingkungan), and it was still found that companies had not carried out social and environmental responsibility activities properly [1]. Therefore The government is trying to reduce the environmental impact by requiring companies to disclose their social and environmental responsibilities as outlined in their Undang-Undang No. 40 Tahun 2007.

The policy related to social and environmental responsibility is further strengthened by the policy OJK Number 51 of 2017 concerning corporate sustainability. The policy aims to realize transparency in sustainable financial reporting and corporate social and environmental responsibility as stated in the sustainability report. However, not all sustainability report disclosures are real, sometimes they are only symbolic as an implementer of obligations [6], so it is necessary to assess companies that truly disclose sustainability reports properly [7].

An independent organization that also helps to pay attention to the disclosure of companies' sustainability reports (SR) is the National Center for Corporate Reporting (NCCR) by giving awards to the best companies in compiling SR, namely the Sustainability Reporting Award (ASRRAT) activity as a form of motivation, appreciation and acceleration of sustainability reports in order to communicate sustainable business [8].

Of course, the preparation of SR cannot be separated from stakeholders, both internal and external, where the life and death of the company can be determined by stakeholders. Likewise, companies that are members of ASSRAT are closely related to stakeholders. Company policies related to SR disclosure have consequences in explaining company operations, this can be seen from the number of companies that voluntarily participate in ASRRAT which continues to increase from year to year [9]. According to [10], companies have stakeholder pressure that can influence

sustainability report disclosure, namely pressure consisting of employee, investor, consumer and environmental pressure.

According to [11], internal employee pressure can determine SR disclosure. Employee pressure has the ability as one of the stakeholders that is very important for the company's operational activities. Employees feel that they own the company and have contributed to the company because employees are one of the company's assets. Employee pressure on the company to disclose SR, because employees contribute to the company to develop the business. Employees can pressure the company to ask the company to disclose SR more transparently by disclosing social activities in the sustainability report [12]. Employee pressure as internal pressure.

External pressure, namely investors, also plays a role in influencing SR disclosure. Investors invest funds in companies in the hope of getting optimal profits so that investors pressure companies including in the disclosure of sustainability reports [2]. In addition, consumers also play a role in SR disclosure. According to [13] Consumers play a role in using the results of a company's products or services, so that consumer preferences can be a pressure for the company, including in the company's concern in informing about the economy, social, and environment. According to [14], companies also have external pressure from the environment that wants companies to care about environmental activities and involvement, so that society and environmentalists pressure companies to be responsible for activities that can damage the environment.

2. LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

2.1. Stakeholder Theory

According to [15], the success of the company can be determined from the stakeholders it has, so that management will make every effort to gain support. The company needs a network of connections between various stakeholders in the business, needs to increase value for stakeholders, and needs to pay attention to ethics and increase profits for shareholders [16].

2.2. Employee pressure on sustainability report disclosure

According to [11], employees as intellectual capital involved in corporate strategy that has a big influence on decision making including in disclosing SR. Employee pressure internally on the company to inform about social and environmental activities. Research [17]; [18]); [14] explains that internal stakeholder pressure from employees has a positive influence on sustainability report disclosure. Therefore, the hypothesis proposed is:

H1: Employee pressure has a positive effect on sustainability report disclosure.

2.3. Investor pressure on sustainability report disclosure

Investors want returns because they invest their funds in the company, so investors can pressure the company including to disclose SR. External stakeholder pressure from investors forces companies to disclose social and environmental obligations [19]. Study [3]; [20]; [10] shows that investor stakeholders have a positive influence on sustainability report disclosure, so the formulation of hypothesis 2 is as follows:

H2: Investor pressure has a positive effect on sustainability report disclosure.

2.4. Consumer pressure on sustainability report disclosure

Stakeholder pressure from Consumers can influence companies. Companies that produce goods for end consumers usually receive more attention than companies that produce other types of production commodities [13]. This forces companies to pay attention to their activities and the impact of the products they produce on the environment [19]. According to stakeholder theory, companies should operate their business activities by considering consumer preferences and interests. Research [11]; [13] indicates that stakeholder pressure from consumers has a positive influence on sustainability report disclosure, so the formulation of hypothesis 3 is as follows:

H3: Consumer pressure has a positive effect on sustainability report disclosure.

2.5. Environmental pressure on sustainability report disclosure

Environmental activists and the public at large are the main sources of environmental pressure. Environmental organizations insist that companies make improvements to the environmental damage caused by their operations. This demand is in line with the principles of stakeholder theory, where companies are expected to pay attention to the interests of their stakeholders, including the environment so that companies are required to disclose social and environmental obligations [13].

Study [1]; [21]; and [13] shows that stakeholder pressure from the environment has a positive influence on sustainability report disclosure, so hypothesis 4 is as follows:

H4: Environmental pressure has a positive effect on sustainability report disclosure.

3. METHOD

3.1 Research Sample

This study uses a sample of 37 companies with a total observation of 135 data. The sampling method is purposive with the following criteria: 1) companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022, 2) ASRRAT member companies.

3.2. Operational definition and measurement of variables

The research variables consist of two, namely the dependent variable (Y) and the independent variable (X). The dependent variable is the sustainability report disclosure (Y), namely is a disclosure of company activities that includes economic, environmental and social aspects [22]. Measurement of sustainability report disclosure is by comparing the number of disclosure items implemented by the company with disclosure items according to GRI G4 which consists of 91 indicators.

$$SRDI = \frac{\text{Total item disclosure SR}}{\text{Total Item SR}}$$

The first independent variable, namely employee pressure (X1), is pressure from employees as one of the company's stakeholders that influences the company [10]. Employee stress is measured by the labor intensity ratio [23].

$$\text{Employee Pressure} = \frac{\text{Total Cost employee}}{\text{Total Fix Assets}}$$

The second independent variable, namely investor pressure (X2), is the company's pressure from investors [20]. The measurement of investor pressure is the proportion of the largest share ownership at the end of the year [13]. Meanwhile, the third independent variable, namely consumer pressure (X3), is the company's pressure from consumers [10]. Consumer pressure is measured by classifying companies based on proximity to consumers. In this categorization, enterprises are assigned a score of 1 if they operate within sectors that are closely aligned with consumer engagement, encompassing consumer products, financial services, hospitality, tourism, printing, retail merchandise, advertising, media, healthcare, energy, textiles and apparel, investment, and telecommunications. In contrast, enterprises receive a score of 0 if they do not belong to these specified sectors [13].

The fourth independent variable, namely environmental pressure (X4), is the pressure on the company from the environment [10]. Environmental pressures are quantitatively evaluated through the categorization of corporations predicated on their spatial relationship to ecological systems. Within this framework of classification, enterprises are assigned a score of 1 contingent upon their affiliation with sectors that exhibit significant proximity to the environment, including but not limited to agriculture, mining, chemicals, machinery, automotive components, cables, real estate, residential construction, infrastructure such as highways and airports, transportation, non-

developmental construction, and electronics. Conversely, companies are given a score of 0 if they are not included in these industries [13].

3.3. Data analysis methods

Multiple regression calculations are used in the analysis procedure of this research, and the regression equation

$$\text{is: } Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Information:

Y	= Sustainability report disclosure
a	= Constant coefficient
β	= Regression coefficient
X1	= Employee pressure
X2	= Investor pressure
X3	= Consumer pressure
X4	= Environmental pressure
ε	= Error

4. RESULTS AND DISCUSSION

Based on descriptive statistical testing (Table 1) shows 135 companies as observations. The minimum value of sustainability report disclosure is 0.30 from PT Indonesia Infrastructure Finance in 2020 which is engaged in financing and infrastructure consulting services so that its business activities are not directly related to the environment, the maximum value is 0.74 from PT Pupuk Kalimantan Timur whose business activities are directly related to the environment with an average of 0.51.

Table 1. Descriptive Test

	n	Min	Max	Mean
Employee	135	0.26	4.20	0.62
Investor	135	30	100	75.30
Consumer	135	0	1	0.55
Environment	135	0	1	0.71
Sustainability Report	135	0.30	0.74	0.51
Valid N (listwise)	135			

Source: Secondary data processed, 2023

Table 1 shows the employee pressure variable with an average of 0.62, which means that the average ASRRAT participating company in Indonesia has an employee pressure of 0.62. The investor pressure variable with a minimum value of 30 is from PT Bank Bukopin Tbk in 2017 and PT Indonesia Infrastructure Finance in 2020 and a maximum value of 100 is obtained from state-owned companies. The consumer pressure variable has an average of 0.55, which shows that 55% of companies tend to be close to consumers, while the environmental pressure variable has an average of 0.71, indicating that 71% of sample companies tend to be close to the environment.

Table 2 shows the results of the model and hypothesis testing, namely the F value of 13.564 and Adjusted R2 of 0.273, meaning that the research model can be used to predict sustainability report disclosure from employee pressure, investor pressure, consumer pressure and environmental pressure of 27.3%, the rest is determined by other variables not included in the research model. The equation of the research model is:

$$Y = \alpha + 0.042X1 + 0.001X2 - 0.016X3 + 0.049X4 + \epsilon.$$

Table 2. Research Model Test

Variables	B	t	Sig.	Information
(Constant)	0.376	13,721	0,000	
Employee Pressure (X1)	0.042	2,788	0.006	H1. supported
Investor Pressure (X2)	0.001	3,524	0.001	H2. supported
Consumer Pressure (X3)	-0.016	-0.999	0.320	H3. not supported
Environmental Pressure (X4)	0.049	2,591	0.011	H4. supported
F Count	13,564			
Sig. F	0,000			
Adjusted R ²	0.273			

Source: Secondary data processed, 2023

Table 2 presents the findings of the hypothesis testing, indicating that the variable of employee pressure exhibits a t value of 2.788 with a significance level of 0.006, which is less than the threshold of 0.05, thereby providing support for the initial research hypothesis. Employee pressure demonstrates a positive and statistically significant influence on the disclosure of sustainability reports. The study's findings align with the conclusions drawn by previous researchers [12]; [17]; [18]; and [14]. The results of the study support stakeholder theory, which stresses that employees are responsible for ensuring that the business they work for upholds its social and environmental obligations [12].

Investor pressure variable (X₂) has a t value with a significance of 0.001 < 0.05, which means that the second hypothesis, namely that investor pressure has a positive effect on sustainability report disclosure, is supported. The results of testing the second hypothesis prove that if sustainability report disclosure increases by 1, it will increase SR disclosure by 0.001. The results are consistent with the study [3]; [20]; and [10]. Companies are increasing their sustainability report disclosures to increase investor confidence, in addition to financial market pressures ([10].

The results of the consumer pressure variable test (X₃) with a t value of -0.999 and a significance of 0.320 > 0.05, which means that the third hypothesis is not supported. If consumer pressure increases, it will not affect the disclosure of sustainability reports. The results of this study are consistent with research [19] which states that most consumers in Indonesia do not really care about the concept of Corporate Social

Responsibility (CSR) and believe that the goal of a company is to generate profit [13].

Environmental pressure variables (X₄) has a t value of 2.591, with a significance of 0.011 < 0.05, meaning that hypothesis 4 is supported, indicating that there is a positive influence of environmental pressure on sustainability report disclosure. If environmental pressure increases, it will increase sustainability report disclosure. The findings of this study are in line with the study [1]; [21]; and [13]. Companies that have the potential to cause environmental damage are more concerned about environmental issues and will therefore make SR disclosures, because the company is trying to meet the demands of the community or environmental groups [13].

5. CONCLUSION, IMPLICATION AND LIMITATION

Overall, ASRRAT participating companies have employee pressure, investor pressure, and environmental pressure that affect SR disclosure, because these pressures can increase sustainability report disclosure. Nevertheless, the influence of consumer pressure on the disclosure of sustainability reports appears to be negligible. This observation serves as an impetus for organizations to release sustainability reports that enhance consumer confidence, thereby facilitating informed decision-making among stakeholders.

This study has limitations in the disclosure of sustainability reports using GRI G4 measurements, further research is expected that examiners will not only use the number of GRI G4 disclosure items but can also use other more comprehensive measurements in determining the disclosure of company sustainability reports such as POJK which has been approved by the government (OJK). This study uses dummy variables for consumer and environmental pressure variables, future research can include primary data and consider other measurements to measure consumer and environmental pressure so that it is possible to show more complete results.

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