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IS MANDATORY SUSTAINABILITY REPORT STILL BENEFICIAL?

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Abstract

The latest regulations in Indonesia (SEOJK No 16/SEOJK.04/2021) have required public companies to make a sustainability report every year in order to increase sustainable investment. Prior to this regulation, several public companies had made sustainability reports and received benefits of sustainability report. This makes issuers ask whether after being obligated, public companies still get the benefits that have been obtained from voluntary sustainability reports and under what conditions the mandatory sustainability reports are beneficial for public companies. This study answers the public companies' doubts by conducting a systematic literature review on research on mandatory and voluntary sustainability reports in Q1 and Q2 journals from 2008-2018. Before answering the issuers' doubts, this study explains the reasons why issuers make voluntary sustainability reports and the benefits derived from voluntary sustainability reports. After that, based on previous research, this study explains whether the benefits obtained from voluntary sustainability reports can still be obtained in mandatory sustainability reports. This study found that sustainability reports were made because of the desire to benefit from these reports initiated by company leaders coupled with institutional pressure. The benefits of voluntary sustainability reports are the positive perception of shareholders and increased concern for the company's sustainability. Mandatory sustainability reports can still provide some (though not all) of the same benefits as voluntary sustainability reports. In addition, the sustainability report must be able to cover the weaknesses of the voluntary sustainability report with the condition that there is strict legal coercion, strict supervision, and the addition of an obligation to audit sustainability information which is strengthened by market demands to make a sustainability report. Therefore, the Indonesian government must pay attention to these conditions for this regulation to be implemented properly.

Keywords: *sustainability report, systematic literature review, mandatory, voluntary*

Abstrak

Peraturan terbaru di Indonesia (SEOJK No 16/SEOJK.04/2021) telah mewajibkan emiten untuk membuat laporan keberlanjutan setiap tahun dalam rangka meningkatkan investasi berkelanjutan. Sebelum peraturan ini dibuat, beberapa emiten telah membuat laporan keberlanjutan dan mendapatkan banyak manfaat dari laporan keberlanjutan. Hal ini membuat emiten bertanya apakah setelah diwajibkan, emiten tetap mendapatkan keuntungan yang telah diperoleh dari laporan keberlanjutan sukarela dan dalam kondisi seperti apa laporan keberlanjutan wajib bermanfaat bagi emiten. Penelitian ini menjawab keraguan emiten dengan melakukan revidi literatur sistematis atas penelitian mengenai laporan keberlanjutan wajib dan sukarela pada jurnal Q1 dan Q2 dari tahun 2008-2018. Sebelum menjawab keraguan emiten, penelitian ini menjelaskan alasan emiten membuat laporan keberlanjutan sukarela dan manfaat yang diperoleh dari laporan keberlanjutan sukarela. Setelah itu, berdasarkan penelitian sebelumnya, penelitian ini menjelaskan apakah manfaat yang diperoleh dari laporan keberlanjutan sukarela masih bisa diperoleh pada laporan keberlanjutan wajib. Penelitian ini menemukan bahwa laporan keberlanjutan dibuat karena keinginan untuk

mendapatkan keuntungan dari laporan tersebut yang diinisiasi oleh pemimpin perusahaan ditambah dengan tekanan institusional. Manfaat laporan keberlanjutan sukarela adalah persepsi positif pemegang saham dan peningkatan kepedulian keberlanjutan perusahaan. Laporan keberlanjutan wajib masih dapat memberikan beberapa (walaupun tidak semua) manfaat yang sama dengan laporan keberlanjutan sukarela. Selain itu, laporan keberlanjutan wajib mampu menutup kelemahan laporan keberlanjutan sukarela dengan syarat adanya pemaksaan hukum yang ketat, pengawasan yang ketat, dan penambahan kewajiban untuk mengaudit informasi keberlanjutan yang diperkuat dengan tuntutan pasar untuk membuat laporan keberlanjutan. Karena itu, pemerintah Indonesia harus memperhatikan kondisi tersebut untuk peraturan ini dapat terlaksana dengan baik.

Kata kunci: laporan keberlanjutan, review literatur sistematis, wajib, sukarela

INTRODUCTION

In 2021, Indonesian government had obligated public companies in Indonesia to make a sustainability report (Pemerintah Republik Indonesia 2021). This regulation was made to increase sustainable investment; create sustainable development; guarantee fund availability to run national economy which integrates economic, social, and life environment aspects; developing green financial system; and follow-up the sustainable financial roadmap (Tempo 2017; Miftahudin 2021). Even though this regulation has prime objectives, the profit obtained by a company from the sustainability report may be smaller than the cost of making the report, and this regulation only makes it difficult to the company (Nishitani *et al.* 2021). Furthermore, the company that has willingly made the sustainability report before will not possibly obtain benefit as same as they made the required sustainability report.

Waagstein (2011) stated that (sustainable) social responsibility report which is obligated in Indonesia improve receiving and implementing social responsibility from different stakeholders at different levels. However, having a social responsibility as an obligation contravenes its nature, which is that social responsibility shall be a voluntary action. Francis *et al.* (2008) also stated that mandatory disclosure no longer benefits the company. Therefore, there is a question: if the company has been obligated to make sustainability report, which will the company obtain the benefits from voluntary

sustainability as same as they obtained it after mandatory sustainability report made? Does mandatory sustainability report give benefit more than voluntary sustainability report can do?

This research aims to answer to these questions. It explains in detail: the reason why a company makes voluntary sustainability report, and the benefits obtained from voluntary sustainability report and mandatory sustainability report. This research also shows the condition of the state regarding of what kind of mandatory sustainability report that can provide benefits for issuers. Besides giving governmental regulations suggestion regarding sustainability report, this research also contributes to the researches related to sustainability report. It shows previous research regarding sustainability reports issued in 2008-2018 that support the researcher to do sustainability report research.

There are many studies of sustainability report that has been conducted before, especially since the guideline of Global Reporting Initiative initiated in 2000. Literature review regarding this report has also been conducted before by, such as, Hahn and Kuhnen (2013), Huang and Watson (2015), Ceulemans *et al.* (2015), Speziale and Kloviene (2014), Mata *et al.* (2018), Traxler *et al.* (2020). According to the literature reviews, there is no review found that differentiates voluntary sustainability report and mandatory report. In fact, there are previous researches showed that voluntary and mandatory reports have different benefits (Francis *et al.* 2008; Tian and Chen 2009;

Nishitani *et al.* 2021; Bergmann and Posch 2018). These reviews also combine sustainability report with other kinds of social responsibility reports. However, sustainability report is different from social responsibility report because it generates representation comprehensively regarding triple bottom line that other kinds of social responsibility reports do not have (Joseph 2012; Sheehy and Farneti 2021). By combining the benefits of the two reports, the readers do not have a good representation of the benefits and wonder whether the mandatory report does still have benefits for the company or not. Therefore, this research makes a contribution by separating the benefits between voluntary report and mandatory report, as well as examining the benefits of the sustainability report only. This research answers the gap of other researches that separating the benefits of both of the reports with the context of the mandatory sustainability report regulations have just been implemented in Indonesia.

RELATED LITERATURE

Sustainability Report

Report (including sustainability report) has two meanings. Firstly, to give information and produce report. When considering sustainability report in terms of mere disclosure, this report is considered in terms of compliance level. When considering sustainability report in terms of producing report, the researcher is discussing the uptake, form, and practice of sustainability report (Niemann and Hoppe 2018). Some researchers only observe the report in terms of mere disclosure. Traxler *et al.* (2018) stated that sustainability report is a disclosure tool to affect performance perception of organization sustainability by providing information regarding triple bottom line performance, commitment to the sustainability and its activity as a good society. Sustainability report is a report reported by company or organization

regarding economic, social, and environmental benefits due to their daily activities. This report also reveals organization value, management model, and demonstration of the relation between strategy and commitment in sustainability global economy (Global Reporting Initiative 2017). Sustainability report is considered as a tool to inform the sustainability activities in a company to stakeholders (Greco *et al.* 2015) both quantitatively and qualitatively (Malik and Kanwal 2018) which is useful for them to make an investment decision (Martínez-Ferrero *et al.* 2018). It also becomes a tool to get social recognition for legitimatizing companies' activities and also creating positive image (Karaman *et al.* 2018; Abeydeera *et al.* 2016). Sustainable report is made as a response to various pressures, expectations, and social changes (Abeydeera *et al.* 2016). In terms of producing report, the report is considered as a process organizing and disclosing information related to sustainability practice and company performance as well as triple bottom line. This sustainability report is a process that makes organization change its point-of-view on the sustainability itself, and gives the organization lesson, as well as improving the organization changes towards sustainability (Massa *et al.* 2015). This report is a contribution to sustainable development outside of legal obligations (Verbeeten *et al.* 2016) and an important catalyst in change towards sustainability (Lozano *et al.* 2016). Sustainability report is considered as an activity aims at measuring the position of the sustainability of company towards sustainability, communicating business and development of economic; social; and environmental dimension to stakeholders, measuring sustainable performance, comparing to other companies, informing how the organization affects and being affected by the expectation of sustainable development and become the basis for changes to the sustainability plan (Lozano *et al.* 2016; Higgins *et al.* 2018). Sustainability requires

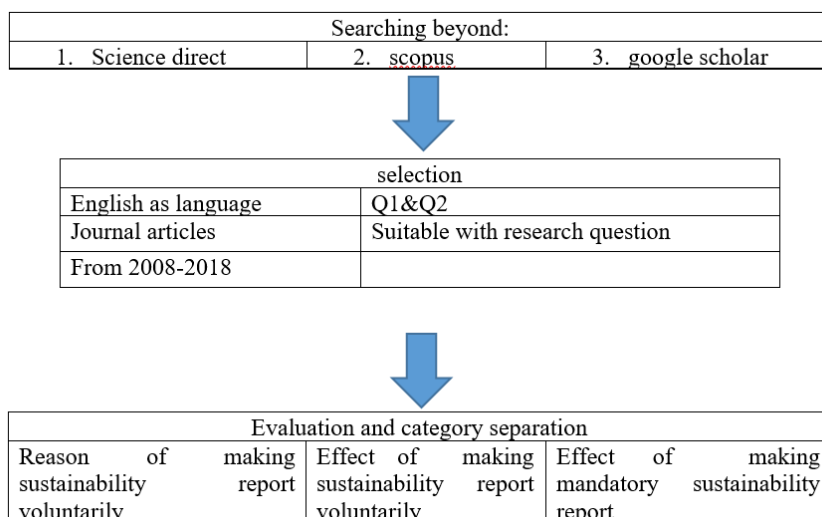


Figure 1
Process of Searching, Selecting, and Assessing Relevant Article

social and environmental performance targets, especially things related to the sustainable development beside economic growth and profit to increase the stakeholders’ value directly and indirectly nowadays without sacrificing what the stakeholders need in the future and paying attention to social and environmental benefits in the organization (Martínez-Ferrero *et al.* 2018; Lozano *et al.* 2016). Therefore, a company requires strategies to obtain a sustainable equilibrium which is economic, social, and environmental dimension today and future with sustainability report.

Some researches equate the terminology of “sustainability report” with social responsibility report (Berthelot *et al.* 2012; Martínez-Ferrero *et al.* 2016), triple bottom line report (Loh *et al.* 2017), GRI report, environment report, society report (Mahoney *et al.* 2013; Higgins, Milne, and van Gramberg 2015; Skouloudis *et al.* 2014; Stubbs *et al.* 2013), and responsibility report (Kuo *et al.* 2016). However, some other researches stated that sustainability report is different from the other reports, because the sustainability report shows representation more comprehensive than environment report (Berthelot *et al.* 2012) and social responsibility report (Loh *et al.* 2017) that combines social vision of social responsibility with the

concern of social and environmental issues (Alcaraz-Quiles *et al.* 2015). This research does not differentiate the terminologies. However, this research does differentiate whether the report is made voluntarily or compulsorily. Voluntary sustainability report is a sustainable report made by a company without any regulations from the government. Meanwhile, mandatory sustainability report is a sustainability report made by a company with the regulations of the government (Zhu and Zhang 2012).

RESEARCH METHOD

This research is conducted by searching data on Science Direct, Scopus, and Google Scholar in the beginning. At first, the researcher investigates Science Direct because it has “related articles” feature which simplifies one to get related article. Furthermore, the researcher utilizes “refine by” to select the data year 2008-2018. Year 2008 is selected because, in October 2006, GRI held the first global conference regarding sustainability report by introducing the report as a tool to improve companies’ sustainable activities (Global Reporting Initiative 2016). It makes the researcher interested to study this sustainability report. According to some researches, accounting research may take 1-2 years to publish the paper in

Scopus indexed journal. It means the papers submitted in October 2006 had been published in 2008 (Moizer 2009). After finding out on Science Direct, the researcher searched data on Scopus with the year of publication over 2007. After searching on Science Direct, the researcher searched on Scopus with publication year over 2007. To reduce the possibilities of missed articles, this research also does the searching on Google Scholar for additional article with the “custom range” 2008-2018. The researcher only selected Scopus-indexed Q1 and Q2 researches to limit the number of research. Scopus-indexed Q1 and Q2 shows high quality research. Research quality matters in this literature study, because it aims at drawing conclusion of the benefits of mandatory sustainability report. If the quality of the literature is low, it will impact on drawing wrong conclusion. The following article selection process in this research:

The stage of searching was started with keywords. Keywords was taken from the research of Hahn dan Kuhnen (2013) and modified by adding ‘voluntary’ and ‘mandatory’ to identify researches which differentiate voluntary and mandatory reports. The keywords used are: *“sustainability report*”OR“stand-alone report*”; voluntary corporate social responsibility report*; voluntary CSR report*; mandatory corporate social responsibility report*; mandatory CSR report*; mandatory corporate social responsibility disclosure; voluntary corporate social responsibility disclosure; voluntary “triple bottom line report*”; mandatory “triple bottom line report*”; mandatory “global reporting initiative report*”; voluntary “global reporting initiative report*”*. There are 19,587 articles obtained with utilizing those keywords in Science Direct, 2,286 articles obtained from Scopus, and 264,700 articles from Google Scholar.

The second stage is journal article selection. This research only requires English journal articles and relates to the

topic, which is the research which is able to separate between voluntary report and mandatory report. Furthermore, the articles used are social responsibility or sustainability report only, and it does not include certain aspects of social responsibility, and study the effect of sustainability disclosure voluntarily and compulsory to compare the benefits of the both reports. However, the articles unused are the articles which study about factors affecting social responsibility disclosure of company, and the researcher only uses articles which discussing the effect of report quality or report insurance. In addition, the researcher selected articles related to the topic manually by reading abstracts. Even though there are likely differences between manually checking and search-engine checking, the manual one has less chance of missing than search engine checking. While selecting articles, the researcher also verifies the quality of the reports through Scimago Journal & Country Rank site. The quality of report used is a the quality of 2017. If the journal has different quality from different fields of science, the researcher utilizes quality of fields of science that is relevant to the used title of article. Thus, 97 articles finally obtained from the second stage and used in this research. In the third stage, the researcher divides some categories to ease analysis. These categories consist of the reason why voluntary report is made, the benefit of making voluntary report, and the benefit of making mandatory report. However, the researcher also noticed that there are some articles which possibly discuss both of the reports. Based on the data obtained, there are 35 researches discussing the reason why voluntary report is made, 36 researches discussing the benefit of making voluntary report, 6 researches discussing the reason and benefit of making voluntary report, and 20 researches discussing the benefit of making mandatory report.

In terms of descriptive statistics result, this research exports data from Mendeley to Microsoft Excel and tabulates it one by one manually. In terms of

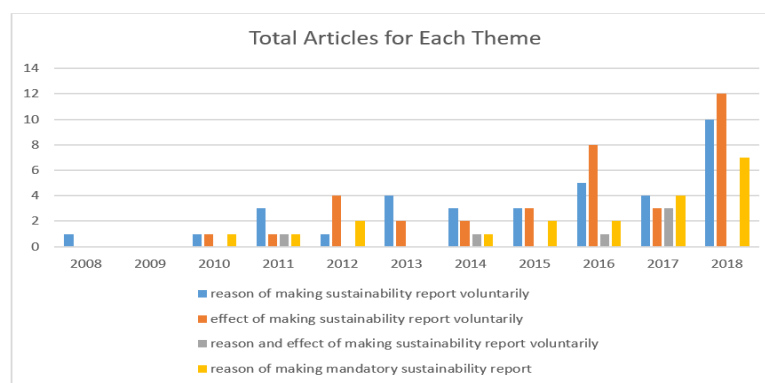


Figure 2
Numbers of Articles per Category per Year
Source : Researcher

discussion result, this research utilizes NVIVO 12. NVIVO 12 assists the research to draw conclusion from the articles collected before by giving nodes in every article. By giving nodes, NVIVO accelerates the process of drawing conclusion without reading the articles one by one. The following steps conducted by the research: firstly, all journal articles inputted from Mendeley to NVIVO 12 according to the categories, and it generally aims at getting comprehensive picture. In NVIVO 12, the researcher searched 100 most frequently used words with ‘*Word Frequency with Stemmed Words*’ and 5 letters for minimum. It was subsequently sorted out, then the researcher searched 3 of 100 most frequently used words with ‘*Text Search with Stemmed Words*’ in every category. After found those words in every article, the researcher categorized sentences used for the nodes. To reduce the missing of information, the results of the research also inputted manually and simultaneously with descriptive statistics in Microsoft Excel.

RESULTS AND ANALYSIS

Descriptive Statistics

Descriptive statistics shown in Figure 2. Figure 2 indicates that total article regarding voluntary and mandatory reports increases every year and the large increase happened in 2016 and 2018. In 2008, the researches regarding social responsibility

report was only limited in the causes of making voluntary report. 2008 is the beginning of concern for researchers about social responsibility report. In the first place, most social responsibility report researches discussed the causes of making voluntary report. However, due to increasing the numbers of voluntary reports, the researches regarding voluntary report benefits is getting much more than the researches regarding the causes of making voluntary report.

Previous research which discussed the causes and benefits of voluntary report considered the endogeneity of the reason of making voluntary report. Meanwhile, previous research of the benefits of mandatory sustainability report is increasing rapidly year by year. Even though the issue regarding the benefits of mandatory report had been raised since a long time ago, in recent years; it has been remainly raised more and more, because some countries have implemented this mandatory sustainability report. Around 80% of articles used in this research studied by using quantitative research method (untabulated). Most of the research studied global data, which is data from various countries that indicate high result of generalization level. The United States of America as a state whose easily accessible data becomes the second most-researched country (untabulated).

Making sustainability report is a complex phenomenon which cannot be explained by one theory (Loh *et al.* 2017). Therefore, the researches regarding sustainability report utilize many theories to explain the reason of making sustainability report as well as the earned benefit. Based on the existing theories, the most frequently used theories to explain voluntary sustainability report are legitimacy theory, agency theory (including information asymmetry), stakeholder theory, and institutional theory (untabulated). The reason why a company makes sustainability report voluntarily cannot be inseparable from the benefits desired of the voluntarily report. Therefore, the theory used is not much different. At first, the company will make sustainability report to maintain the legitimacy, and in the end, the benefits obtained are not only legitimacy, but it also reduces information asymmetry that becomes theoretical framework of agency. Furthermore, the theories which explain the benefits of mandatory sustainability report are not much different either, which are agency theory, institutional theory, and legitimacy theory. Agency theory (including information asymmetry) indicates that there is an information asymmetry between manager and stakeholder who insist the company to make a report. Information asymmetry which happened in company's sustainability activity insists them to make sustainability report (Martínez-Ferrero *et al.* 2016). Sustainability report can be made by a company whose both good and poor sustainable performances. According to voluntary disclosure, a company whose good sustainable performance has incentive to disclose, and it is for differentiating good and bad news to avoid adverse selection problem (Clarkson *et al.* 2008). Meanwhile, a company whose bad sustainable performance will face high political and social pressures and threaten its legitimacy, so that the company makes sustainability report to show that they are concerned with the sustainability (Sassen *et al.* 2018; Schreck and Raithel 2018; F. Verbeeten 2011). Sustainability report can be an

instrument to maintain and increase legitimacy, so that it issues a licence to operate (Traxler *et al.* 2018). According to stakeholder theory, sustainability report is made due to the high level of stakeholder's concern with world sustainability (Gallego-álvarez and Eduardo 2017). Stakeholder who greatly influences company survival is able to insist the company to do disclosing their contribution to sustainable development and public welfare (Gallego-álvarez and Eduardo 2017). On the other hand, institutional theory states that sustainability report is not made due to the initiation of company to reach specific goals, but it happens due to the manager is under social pressure of what one has to do on the context of the place where the company operates (Higgins *et al.* 2018). The pressure is put by government (regulation), professional organization (normative), and other companies which come from same industry (mimetic) (Bansal 2005; Li and Belal 2018). Previous research that studied the benefits of mandatory sustainability report stated that institutional theory is mostly used for finding out whether sustainability report based on social pressure from the surroundings can be beneficial for companies.

Analysis

The Reasons Why Voluntary Sustainability Report is Made

The reasons why voluntary sustainability report is made cannot be inseparable from the benefits expected from making sustainability report. Concern of sustainability comes from economic growth increase, economic globalization and reformation which cause social and environmental demoralization (Li and Belal 2018; Berthelot *et al.* 2012), practice which does not support sustainability and global warming issues (Elijido-ten 2011). As a consequence, stakeholder demands company to be responsible for the practice which threatens sustainability and report it to them. Sustainability report making cannot be inseparable from concern

increase with other stakeholders beside shareholders (Verbeeten *et al.* 2016; Gallego-Álvarez and Ortas 2017; Karaman *et al.* 2018). Concern develops from focus on environment to focus on sustainability (Kolk 2010). Sustainability report as a wide-ranging and comprehensive report regarding sustainable activities of a company and its benefits to ensure stakeholders that business view has changed and led to the sustainability (Stubbs *et al.* 2013).

Sustainability report making process comes from two elements, which are: 1) internal factor, which is a company requires to make sustainability report, and 2) external factor, which is external pressures to make a sustainability report (Liao *et al.* 2018). Furthermore, the decision to make sustainability report originated for the first time from internal factor and the decision to make sustainability report subsequently originated from internal and external factors (Lozano *et al.* 2016; Sassen *et al.* 2018; Greco *et al.* 2015). In terms of internal factor, there are many researches that mostly discussed legitimacy theory, voluntary disclosure theory, and agency. In terms of external factor, the researcher discusses institutional theory.

There are two big theories contradict with what underlie the reason voluntary sustainability report, which are legitimacy and voluntary reporting theories. According to legitimacy theory, voluntary sustainability theory is make to gain legitimacy and fulfill stakeholders' expectation, so that the company can survive. Most of researches regarding voluntary sustainability report are based on this theory. Sustainability report is used to reduce skepticism of stakeholders (Nekhili *et al.* 2017), change public perception of sustainable performance (Clarkson *et al.* 2008), and fulfill demands of stakeholders (Sassen *et al.* 2018; Thorne *et al.* 2014; Dienes *et al.* 2016). This pressure gets worse due to the increase of mass media concern with the issue of sustainability (Reverte 2016) which makes a company that is more impressionable to the mass media more

likely to make a sustainability report. Legitimacy theory indicates that a company that has bad sustainable performance requires sustainability report making to reduce skepticism of stakeholders.

According to voluntary disclosure theory, voluntary sustainability report is made for reducing information asymmetry and informing that the company reported has good sustainable performance (Mahoney *et al.* 2013). A company whose good sustainable performance has incentive to disclose, so that this company is able to differentiate itself from other companies whose bad sustainable performance (Qiu *et al.* 2016; Schreck and Raithel 2018). Sustainability report making cost for a company whose good sustainable performance is way lower than a company whose bad sustainable performance (Clarkson *et al.* 2008).

The result of the research shows that legitimacy theory is more dominant. Furthermore, the result of consistent research shows that a company that is more exposed to the media tends to have sustainability report (Nikolaeva and Bicho 2011; Dienes *et al.* 2016) and sustainability report is a part of company positioning strategy (Higgins and Coffey 2016). Big company tends to have sustainability report, because it is more visible than small company (Beck *et al.* 2018; Cormier and Magnan 2014; Gavana *et al.* 2018; Dhaliwal *et al.* 2011; Sassen *et al.* 2018; Karaman *et al.* 2018; Stubbs *et al.* 2013). Older company is way more visible so as to tend to have sustainability report (Orazalin and Mahmood 2018). Meanwhile, environmentally sensitive company also tends to have sustainability report, because it is more visible than non-environmentally sensitive company (Qiu *et al.* 2016; Skouloudis *et al.* 2014). Parsa *et al.* (2018) studied the human rights reporting in sustainability report and concluded that there are weaknesses in reporting sustainability report and only reporting the high profile aspect. It indicates that reporting sustainability report aims at increasing legitimacy only. Patten dan Zhao (2014) also found out that

sustainability report is used to attract investors and create good image of sustainability report on retail company in US. Moreover, NGO also made sustainability report to avoid legitimacy threat (Traxler *et al.* 2018). Alcaraz-Quiles *et al.* (2015) stated that making decision regarding sustainability report requires planning in the first place before the manager utilizes it to gain legitimacy. Adjusting valid norm and fulfilling stakeholder's expectation are the most important motivation to make sustainability report (Bona-Sánchez *et al.* 2017; Muttakin *et al.* 2015).

Relating to the voluntary disclosure theory, experts stated that motivation to make sustainability report is initiated by a willing to improve sustainable performance and increase transparency (Lozano *et al.* 2016). Clarkson *et al.* (2008), Liao *et al.* (2018), Mahoney *et al.* (2013), Kuo *et al.* (2016), and Du *et al.* (2017) proved that good sustainable performance increases reporting of sustainability report. Kolk (2010) found that a company makes sustainability report to improve sustainable ability.

According to agency theory, a company makes sustainability report to reduce information asymmetry between stakeholder and manager. Researches of agency theory discuss the characteristics of corporate governance. A company whose low internal ownership tends to have sustainability report to reduce large information asymmetry (Verbeeten *et al.* 2016; Martínez-Ferrero *et al.* 2018). On the other hand, shareholder mostly tends to make sustainability report to protect company reputation (Bona-Sánchez *et al.* 2017). State-owned enterprises also tend to make sustainability report more than private companies (Liao *et al.* 2018). A company with fewer commissioners tends to have personal responsibility to supervise sustainability report making (Al-Dah *et al.* 2018). Good governance tends to increase sustainability report, especially in the countries whose high protection to its investors, because they are able to reduce

information asymmetry, especially when the financial report is less-transparent (Cormier and Magnan 2014; Malsch 2013). Other benefits of making sustainability report is to reduce capital cost due to lack of information asymmetry. Dhaliwal *et al.* (2011) showed that companies willingly make sustainability report in the hope of reducing the capital cost.

Besides reaching specific objectives, the company also makes sustainability report due to the existing institutional pressure. Institutional theory explains why a company adopts different sustainability report practice in many contexts and countries (Shabana *et al.* 2017; Higgins *et al.* 2018). Stekelorum *et al.* (2018) stated that managers of micro and medium enterprises have been assured that sustainability report is essential for the companies (normative pressure proof) and its reporting becomes mimetic due to the uncertainty of what things that required to be reported and the company is under pressure from customers to increase transparency (coercion factor). Researches conducted in China and Indonesia indicate that a company makes sustainability report due to mimetic pressure as well as other companies in the same industry that have already made it before (Li and Belal 2018; Rudyanto 2019). Furthermore, national culture has an important role in making sustainability report. A different culture-operated company will be forced to have different sustainable behavior as well, because of influencing the way of stakeholders think about sustainability (Gallego-álvarez and Eduardo 2017; Garcia-Sanchez *et al.* 2016; Momin and Parker 2013), although Abeydeera *et al.* (2016) found that sustainability report is made because of mimetic reason more than different culture. Perez-Batres *et al.* (2012) found that the type of industry (mimetic) and the country where the company is located are the most decisive things for a company to make sustainability report.

Outside pressure should be responded by internal party, especially the director or the chief of a company in the first place. Li

and Belal (2018) stated that the emergence of sustainability report in one of the state companies (ALPHA) begins from the awareness of executive managers on the numbers of sustainability reports that have been made by other companies which resulted in global pressure to make sustainability reports. In conclusion, the sustainability report hopefully could increase sustainability-based culture in ALPHA. Patrizio *et al.* (2013), Bellringer *et al.* (2011), Ramon-Llorens *et al.* (2018), Massa *et al.* (2015) also stated that leadership commitment is required in sustainability process, because the benefit of big pressure from outside company could turn to be negative. Meanwhile, the reason why a company does not make sustainability report is also due to the manager who does not perceive that there is a stakeholder pressure of making the report (Stubbs *et al.* 2013). Sustainability report change becomes sustainability process which also depends on the chief or leadership (Higgins and Coffey 2016; Greco *et al.* 2015). Therefore, close relationship between directors or chiefs and stakeholders or sustainability organizations (Higgins *et al.* 2018) as well as the characteristics of leadership absolutely determine the sustainability report. Shafer and Lucianetti (2018) found that the characteristic of leadership which is Machiavellianism influences leadership behavior on sustainability report. A chief whose Machiavellianism characteristic has social disorder, being selfish and lack of empathy. As a consequence, the probability of making sustainability report is low.

Benefits of Making Voluntary Sustainability Report

Researches regarding benefits of making sustainability report mostly lead to the benefits of shareholder, which is company value. It indicates that sustainability report issued is positively responded by shareholder, because of two things. Firstly, the company which makes voluntary sustainability report is considered for having good sustainable performance

(voluntary disclosure theory) (Verbeeten *et al.* 2016; Qiu *et al.* 2016; Loh *et al.* 2017) with the quality of the report is better and more credible (Wang and Li 2016; Guidry and Patten 2010). Secondly, sustainability report reduces company risk on the company which is more visible and increases company legitimacy (legitimacy theory) (Reverte 2016; Gavana *et al.* 2018; Bachmann and Ingenhoff 2016) or both (Berthelot *et al.* 2012; Orazalin and Mahmood 2018). From the perspective of agency theory, sustainability report is proven to reduce information asymmetry (Martínez-Ferrero *et al.* 2018), especially in the countries whose high protection to its stakeholders (Martínez-Ferrero *et al.* 2016), which results in decreasing profit management (Muttakin *et al.* 2015), increasing profit informative rate, especially when the entrenchment risk is high (Bona-Sánchez *et al.* 2017), increasing market liquidity (Egginton and McBrayer 2018), reducing analyst forecast errors (Garrido-Miralles *et al.* 2016; Aerts *et al.* 2008); especially in the stakeholder-oriented countries and their sustainability reports are credible (Dhaliwal *et al.* 2012), reducing capital cost (Reverte 2012; Dhaliwal *et al.* 2011).

Critics pointed out that sustainability report only increase company image, so that it only affects stakeholder perception (Higgins and Coffey 2016). To respond it, previous research showed that sustainability report benefits are not just a perception. Sustainability report increases sustainability performance by raising manager awareness of sustainability and assisting manager to include the sustainability in his/her activities (Massa *et al.* 2015), having environmental management system (Ramos *et al.* 2013), reducing reluctance to do changes to sustainability (Lozano *et al.* 2016), improving sustainable performance (Du *et al.* 2017), increasing capacity building through supplier sustainability (Stekelorum *et al.* 2018), promoting rights and increasing workers' accountability (Parsa *et al.* 2018), improving brand equity (Malik and Kanwal 2018) which

will increase company profitability in ordinary companies (Beck *et al.* 2018) and Islam-based companies (Platonova *et al.* 2016). Axjonow *et al.* (2018) also asserted that sustainability report does not build up company image on unprofessional stakeholders.

Niemann dan Hoppe (2018) stated that the benefits of sustainability report depends on context, report structure, and process characteristic. In terms of context, Smiechowski *et al.* (2017) found that there is no benefit of sustainability report for pro-environmental activities which may be caused by the benefits of sustainability report are more perceived in its social activities (Verbeeten *et al.* 2016; Qiu *et al.* 2016; Al-Dah, Dah, and Jizi 2018). Sustainability report is also appreciated when the economic situation of a country is not problematic and high percentage of independent commissioners increases shareholder appreciation (Al-Dah *et al.* 2018). Nekhili *et al.* (2017) stated that the benefits of sustainability report on company value is more visible in the companies whose male and female commissioners than in the companies whose male commissioners only due to ethical reason Muttakin *et al.* (2015) found that sustainability report reduces profit management when involved internationally and increases profit management when being uninvolved internationally due to political consideration. Beck *et al.* (2018) found that amount of sustainability report benefit on company profitability is different and depends on context. In the terms of report structure, research showed that the benefits of sustainability report will be too real to enjoy, if the report is made specifically by using local language (Orazalin and Mahmood 2018) and language structure (Higgins and Coffey 2016). Meanwhile, in the terms of process characteristic, the benefits of sustainability report is inseparable from the relevance between every part of the company in making sustainability report and the sustainability training provided by the company to its employees (Monfardini *et al.* 2013; Lozano *et al.* 2016).

Benefits of Mandatory Sustainability Report

Wang and Li (2016) showed that whether it is mandatory or voluntary sustainability report gives positive signal to shareholders. Mandatory sustainability report still reduce information asymmetry as well and this benefit is superior to voluntary sustainability report (Wang *et al.* 2018), especially when having more obligation to do independent verification (Belal *et al.* 2015). However, obligating sustainability report makes the companies which have already made the report before the obligation applies as well as the companies whose good sustainable performance will not obtain benefits as much as before (Belal *et al.* 2015), because it is predicted that the report will be no longer reducing insider trading (Liao *et al.* 2018), reducing the benefits of sustainability report on analyst forecast accuracy (Dhaliwal *et al.* 2012), even reducing company value (Birkey *et al.* 2016). This is because the theory of voluntary disclosure is no longer valid.

Criticism of voluntary sustainability report are the lack of numbers of sustainability report (Waagstein 2011; Liao *et al.* 2018; Sassen *et al.* 2018) and less trustworthy (Schreck and Raithel 2018), and incomparable (Birkey *et al.* 2016; Nekhili *et al.* 2017), as well as interpreted as a form of legitimacy only (Crawford and Williams 2010). Theoretically, institutional theory stated that coercive factor through obligation from the government is able to cover weakness of voluntary sustainability report, because it protects stakeholders from company act that does not support sustainability (Garcia-Sanchez *et al.* 2016), raising company awareness (Christensen *et al.* 2017), facilitating stakeholders with appropriate instruments for measuring company sustainability strategy so as to be able to increase sustainable performance (Zhu and Zhang 2012). It can increase the numbers of sustainability report and sustainable act from the company (Śmiechowski and Lament 2017). Previous research showed that the obligation of making sustainability report

increases the numbers of sustainability report (Muttakin *et al.* 2015).

If coercive factor is not bigger than benefits of voluntary disclosure, the state should not require obligating sustainability report. Besides no benefit of voluntary disclosure obtained, the obligation of sustainability report also adds company compliance cost (Waagstein 2011). Meanwhile, sustainability report made by companies located in the countries where obligate to make the report does not longer indicate awareness of sustainability issue, but rather obedience to government regulations (Kansal *et al.* 2018). Therefore, this result can be obtained only if the obligation assisted by legal coercion (Crawford and Williams 2010) and strict supervision (Garcia-Sanchez *et al.* 2016). Both of the things are not owned by developing countries (Waagstein 2011), and Indonesia is no exception. Criticism also stated that the increase of the numbers of sustainability reports cannot be related to obligation directly (Arena *et al.* 2018), even though one of the reasons why a company does not make sustainability report is because they are not obligated (Ramos *et al.* 2013; Higgins *et al.* 2018). It is affirmed by Lin *et al.* (2017) who found that sustainability report is negatively associated with tax avoidance in countries whose good law quality only.

The absence of legal coercion and strict supervision has negative consequences. Obligation applies in the countries whose law and supervision issues. Previous research of mandatory sustainability report indicated that the report is mostly narrative (Kansal *et al.* 2018) and the obligation has no effect (Leong *et al.* 2014) or reduces sustainability disclosure in the countries whose comprehensive sustainable information before the obligation applied (Arena *et al.* 2018; Jain *et al.* 2015; Crawford and Williams 2010) which is supported by having no good intention in reporting process (Leong *et al.* 2014). Furthermore, Belal *et al.* (2015) dan Bellringer *et al.* (2011) stated that alternate accountability means coercion from a non-

legal perspective by using influential groups to increase sustainability in developing countries rather than legal coercion

Even though the obligation of sustainability report has weaknesses, especially in developing countries, the voluntary sustainability report does too. Previous research showed that disclosure quality of voluntary sustainability report is still bad (Higgins *et al.* 2018; Stekelorum *et al.* 2018; Higgins and Coffey 2016). High market pressure and the profit accepted after making voluntary sustainability report do not make a company reports its sustainability (Crawford and Williams 2010). On the other hand, the obligation of sustainability report requires high social pressure and competitive market (Zhu and Zhang 2012) as well as good governance structure (Zhu and Zhang 2012). Furthermore, voluntary sustainability report requires regulation (Crawford and Williams 2010), because the report is less reliable and comparable (Zhu and Zhang 2012). Previous research showed that incentive of sustainability report affects compliance level on obligation of sustainability report (Peters and Romi 2013). In addition, mimetic and normative behaviours are shown in the countries that obligate to make sustainability report (Crawford and Williams 2010). A company may be possible to make sustainability report (even obligated), if the company is a large company and obtains benefits directly from the report, e.g. environmentally sensitive company (Bergmann and Posch 2018). Therefore, to gain benefits of sustainability report obligation, this obligation requires to be completed with market demand and real benefits of making sustainability report (Waagstein 2011).

The obligation of making sustainability report does not only solve the problems of voluntary report, because mandatory report does not solve either the problems of data consistency and comparability, and it could lead to the "one size fits all" for sustainability report in company (Zhu and Zhang 2012). Therefore, this

obligation is not only completed by market demand; law enforcement and government supervision, but it is also completed by addition of audit obligation and specific sustainability report standard for various industries and purposes (e.g. in Islamic banking industry (Platonova *et al.* 2018)). GRI has a role to provide specific sustainability report standard (Orazalin and Mahmood 2018). The synergies between scientific oversight, government regulations, audit mechanisms, and market demands optimize the benefits of sustainability report.

CONCLUSION

This research aims at giving answers to the question: can the benefits of making voluntary sustainability report be obtained as same as it can be obtained after mandatory sustainability report has been made? By utilizing systematic literature review of the research which discussed sustainability report in 2008-2018 on Scopus 1 and 2 quality journals, this research found out that sustainability report is made due to internal awareness of the chief of company which is stakeholder pressure on sustainability report and the benefit expected after making the report, increasing public legitimacy, giving signal of good sustainable performance, and reducing information asymmetry (Li and Belal 2018; Monfardini *et al.* 2013; Bellringer *et al.* 2011; Ramón-Llorens *et al.* 2018; Massa *et al.* 2015). This internal awareness is strengthened by institutional pressure influence, which is normative pressure of GRI guidelines issued and mimetic pressure of same industry. These become a basis of increasing numbers of sustainability reports in the world (Higgins *et al.* 2018; Traxler *et al.* 2018; Axjonow *et al.* 2018; Rudyanto 2019), although the number is still small today (Sassen *et al.* 2018). The profit is proved conclusively by making voluntary sustainability report, although the results are relevant to the context, culture, and how the company utilizes the report strategically (Martínez-Ferrero *et al.* 2016). Decision to obligate to make sustainability report re-

quires to consider its positive and negative benefits. Negative benefit of this obligation is that compliance cost increases and profit reduces. It may happen in the companies that have issued sustainability report before the obligation applied and the companies whose good sustainable performance (Waagstein 2011; Kansal *et al.* 2018). Positive benefit of this obligation is that the numbers of sustainability reports and the awareness of sustainability increase which are followed by the increase of sustainable performance quality of a company (Muttakin *et al.* 2015; Śmiechowski and Lament 2017; Christensen *et al.* 2017). This positive benefits can be obtained only if the country's legal environment is strong and there is a 'carrot and stick' on sustainability reports (Garcia-Sanchez *et al.* 2016; Crawford and Williams 2010). This is what the government requires to pay attention to. Indonesia does not have a strong legal environment. Therefore, if the government does not act decisively in following up, this regulation is considered non-existent (Waagstein 2011). As a result, positive benefit is cannot be obtained and negative benefit still remains, so that the regulations reduce the quality of sustainability report (Arena *et al.* 2018; Jain *et al.* 2015; Crawford and Williams 2010). In addition to a strong legal environment, the government also requires to set the standards used in making sustainability report, e.g. using GRI Standards issued in 2017, and requires audit of sustainability report audit to increase the credibility of the information.

If the Government of Indonesia is not able to improve the quality of the legal environment for this regulation, they can take advantage of market demands, which are stakeholder demands for sustainability report, and the role of influential organizations on these demands (Waagstein 2011; Crawford and Williams 2010). The most ideal situation is a market demand followed by a strong legal environment with additional sustainability report standard as well as additional audit obligation on sustainability report (Platonova *et al.* 2018; Crawford and Williams 2010).

Thus, is mandatory sustainability report still beneficial? Mandatory sustainability report is still beneficial if the Government of Indonesia is able to improve the quality of the legal environment and/or take advantage of market demand. If these conditions are met, the obligation of sustainability report can increase the awareness of all parties on their sustainability activities, increase the credibility of information, and increase competition in the company's sustainability activities that are not obtained from voluntary sustainability reports. This condition ensures the success of the regulatory objectives on sustainability report.

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