

THE EFFECT OF SUSTAINABILITY DISCLOSURE AND PERFORMANCE ON THE ACCOUNTING PERFORMANCE OF LQ45 COMPANIES IN INDONESIA

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Abstract:

Background: Sustainability has emerged as a global priority, and in Indonesia, the issuance of POJK No. 51/2017 obliges all public companies to publish sustainability reports starting in 2020. Considering that prior studies have produced mixed findings regarding the relationship between sustainability and financial performance, this issue remains open for further empirical investigation.

Purpose: This study aims to examine the effect of sustainability disclosure and sustainability performance covering economic, environmental, and social dimensions on the accounting performance of LQ45 companies during the mandatory sustainability reporting period.

Design/methodology/approach: This quantitative empirical research analyzes 62 sustainability reports from 24 non-financial LQ45 companies over the period 2020–2022. Sustainability disclosure and sustainability performance are measured using content analysis based on the GRI Standards. Accounting performance is proxied by Return on Assets (ROA), and the hypotheses are tested using a fixed-effects panel regression model.

Findings/Results: The results show an upward trend in both sustainability disclosure and sustainability performance over the observation period. Economic and environmental disclosures exhibit negative but statistically insignificant effects on accounting performance. In contrast, social disclosure shows a positive and significant effect, indicating that stakeholder-oriented practices such as employee welfare, product responsibility, and customer satisfaction contribute to improved accounting performance. Sustainability performance across all dimensions does not show a significant effect on accounting performance.

Conclusion: Although economic and environmental disclosures may involve short-term costs, firms are encouraged to strengthen social disclosure, as it demonstrates a positive association with accounting performance.

Originality/Value (State of art): This study integrates both sustainability disclosure and sustainability performance within the context of mandatory sustainability reporting.

Keywords: sustainability disclosure, sustainability performance, accounting performance, financial performance, content analysis

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INTRODUCTION

Industrial activities have generated adverse environmental and social consequences, making sustainability an increasingly prominent issue over the past four decades (Awan et al. 2018). The concept of sustainability gained particular global attention following the publication of the Brundtland Report by the World Commission on Environment and Development (WCED) in 1987. In this report, Brundtland (1987) called upon all stakeholders, including corporations, to engage in sustainable actions to safeguard the future of humanity. As a result, firms are encouraged to integrate environmental and social considerations into their business strategies (Schaltegger and Wagner 2006).

Subsequently, Elkington (1994) introduced the triple bottom line framework, which emphasizes that organizations including companies should pursue and balance economic, environmental, and social objectives. This framework marked a shift away from the traditional financial paradigm that focused primarily on profit and economic outcomes toward a broader orientation encompassing sustainable finance and corporate sustainability (Laskar et al. 2017). Ching et al. (2017) further argue that sustainability is not only essential for addressing environmental and social concerns but is also critical for ensuring a firm's long-term success.

Consistent with stakeholder theory, organizations are expected to demonstrate accountability by, first, conducting activities aligned with stakeholder interests and, second, communicating these activities through formal reporting mechanisms (Fernando and Lawrence 2014). A sustainability report serves as the primary medium for conveying an organization's performance across the triple bottom line dimensions (Laskar et al. 2017).

Globally, sustainability reporting initially developed as a voluntary corporate practice. However, increasing international concern over sustainability issues has led many countries to adopt mandatory sustainability reporting regulations (Krueger et al. 2021). Indonesia has aligned with this global trend. A report by PwC (2021) highlights that sustainability has become a strategic priority for Indonesian companies. The Indonesian government first institutionalized corporate

social responsibility (CSR) through Law No. 40 of 2007, which obliges both public and private firms to undertake CSR activities. This regulatory framework was subsequently reinforced by the issuance of POJK No. 51/2017, which mandates the publication of sustainability reports effective in 2019 for banking institutions and in 2020 for all other publicly listed companies.

The publication of sustainability reports in Indonesia began in 2006, when only five public companies issued such reports (Gunawan et al. 2022). Following the implementation of POJK No. 51 of 2017, the number of companies disclosing sustainability reports increased substantially. In 2020, when the regulation was fully enforced for all listed firms, 206 out of 712 companies, or 28.9%, published sustainability reports. This proportion continued to rise, reaching 501 out of 775 companies, or 64.4%, by 2022 (Figure 1).

These regulatory changes, together with the steady growth in sustainability report publication, provide a timely setting for examining corporate responses to mandatory sustainability reporting in Indonesia. They also create an appropriate context for analyzing how sustainability disclosure and underlying sustainability performance are associated with firms' financial outcomes.

Numerous prior studies have investigated the relationship between sustainability and corporate financial performance. A positive association is generally viewed as a motivating factor for firms to adopt stronger sustainability practices. However, literature that conducted meta-analyses on this topic (Horváthová, 2010; Aggarwal, 2013; Wang et al. 2015; and Alshehhi et al. 2018) have produced mixed results that the relationship between sustainability and financial performance remains inconclusive. While some studies report positive effects, others identify negative effects, U-shaped relationships, or no relationship at all. These inconsistencies are largely attributed to variations in how sustainability is measured and differences in research scope, including industry coverage and observation periods (Horváthová, 2010). Despite this heterogeneity, Alshehhi et al. (2018) document that 78% of the 132 studies included in their meta-analysis report a positive relationship between sustainability and financial performance.

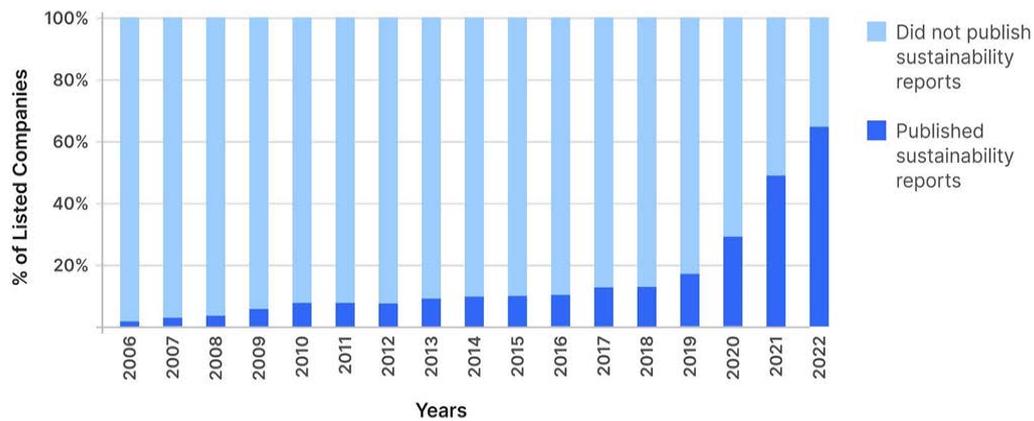


Figure 1. Percentage of IDX listed companies that published and did not publish sustainability reports from 2006 to 2022

The mandatory issuance of sustainability reports under POJK Number 51 of 2017 introduces new questions concerning the value relevance of sustainability disclosure practices. When sustainability reporting was voluntary, firms that disclosed sustainability information were generally perceived to obtain legitimacy and reputational advantages compared to others. However, once disclosure became a regulatory requirement, the extent of differential benefits associated with sustainability reporting became less evident. Rudyanto (2020) argues that within a mandatory disclosure environment, the quality and substantive content of sustainability information are decisive in determining whether sustainability reports continue to create value for firms. Consistent with this view, Krueger et al. (2021) point out that the financial performance implications of mandatory sustainability disclosure policies remain insufficiently examined, particularly in emerging market contexts such as Indonesia.

This study investigates the effect of sustainability disclosure and sustainability performance on the accounting performance of Indonesian LQ45 companies, with Return on Assets (ROA) as the performance proxy. LQ45 companies are a relevant object of analysis because they represent the most liquid, highly capitalized, and influential firms in the Indonesian capital market, making their sustainability practices more visible and potentially more impactful (Hatane et al. 2020). Their prominence enhances the representativeness of the findings for leading Indonesian corporations, and their characteristics are often considered comparable to major international indices such as the S&P 500 in the United States. ROA is a profitability indicator that measures a firm's

ability to generate earnings from its total assets and reflects management effectiveness in utilizing available resources (Ross et al. 2003; Wahlen et al. 2022).

The novelty of this study lies in both its measurement approach and research context. Unlike many prior studies that focus solely on sustainability disclosure, this research clearly distinguishes between sustainability disclosure and sustainability performance as related but conceptually different constructs, enabling a more nuanced analysis of reported versus implemented sustainability practices. In addition, the study is conducted during Indonesia's mandatory sustainability reporting period, allowing a more accurate assessment of corporate behavior under regulatory enforcement. This context provides insight into whether sustainability disclosure alone affects financial performance or whether substantive sustainability performance plays a more decisive role, thereby contributing to the literature on sustainability and financial performance under mandatory reporting regulation.

This study offers both theoretical and practical contributions. From a theoretical standpoint, it extends the literature on the relationship between sustainability and financial performance by providing empirical evidence from an emerging market that has implemented mandatory sustainability reporting. By separating the effects of sustainability disclosure and sustainability performance across economic, environmental, and social dimensions, this study helps clarify why prior empirical findings in this area have frequently been inconsistent. From a practical perspective, the findings provide guidance for corporate managers in prioritizing sustainability strategies that are more likely to affect

financial performance. The results are also relevant for investors and regulators in evaluating the effectiveness of sustainability-related policies and assessing the quality and usefulness of information disclosed in sustainability reports.

METHODS

The study adopts a structured empirical procedure beginning with sample selection and data collection. Non-financial firms consistently included in the LQ45 index during the 2020–2022 period are identified, and their sustainability reports and financial statements are collected. Sustainability disclosure and sustainability performance data are obtained through systematic content analysis based on the GRI Standards, with inter-coder reliability assessed using Krippendorff's Alpha to ensure consistency. Accounting performance and control variables are derived from financial statements and analyzed descriptively to observe trends. Finally, panel data regression is conducted, with model selection based on the Chow test, Breusch–Pagan Lagrange Multiplier test, and Hausman test, to examine the effects of sustainability disclosure and sustainability performance on accounting performance.

This quantitative study applies a purposive sampling method based on the following criteria: (a) companies consistently included in the LQ45 index during the 2020–2022 period; (b) non-financial companies; and (c) companies that published sustainability reports in accordance with the GRI Standards or 16/SEOJK.04/2021 in at least one year between 2020 and 2022. Based on these criteria, the final sample comprises 62 sustainability reports from 24 companies.

This study utilizes secondary data. Financial information is obtained from annual financial statements, while sustainability-related data are collected through content analysis based on the GRI Standards comprising 89 items, including 17 economic indicators, 30 environmental indicators, and 42 social indicators, as detailed in Appendix A. These data are subsequently analyzed using panel regression to evaluate the relationship between sustainability disclosure, sustainability performance, and accounting performance.

Sustainability Disclosure Score

Content analysis for sustainability disclosure is done by giving a point of 1 (one) if an indicator is disclosed and a point of 0 (zero) otherwise (Natalia and Tarigan, 2014; Wijayanti, 2016; Caesaria and Basuki, 2017; Gunarsih and Ismawati, 2018; and Hidayah and Kartikadevi, 2021). The sustainability disclosure score is calculated using the following formula.

$$SD_{it} = n/k$$

Note: SD (Sustainability disclosure score for each dimension); n (The number of indicators disclosed in each dimension); k (The number of all indicators in each dimension)

Sustainability Performance Score

Sustainability performance is assessed through content analysis by assigning (a) positive scores (+) when a disclosed indicator reflects positive outcomes or performance improvement, (b) negative scores (–) when it reflects negative outcomes or declining performance, (c) neutral scores (n) when the indicator is disclosed without indicating positive or negative performance, or (d) a score of 0 (zero) when the indicator is not disclosed (Patten and Crampton 2003). This positive, negative, and neutral coding approach has also been used in prior studies by Plumlee et al. (2015), Hussain et al. (2016), and Hussain et al. (2018). The sustainability disclosure score is then calculated using the following formula.

$$SP_{it} = SD_{it} \times QI_{it}$$

$$QualityIndex_{it} = \frac{(\text{Real Score}_{it} - \text{Minimum Score}_{it})}{(\text{Maximum Score}_{it} - \text{Minimum Score}_{it})}$$

Note: SD (Sustainability disclosure score for each dimension); Quality Index (Quality index); Real Score (The number of indicators with positive points added with neutral points subtracted by minus points); Minimum Score (The minimum potential score assigned to each dimension when all the information provided has been classified as negative); Maximum Score (The maximum potential score assigned to each dimension when all the information provided has been classified as negative).

Krippendorff's Alpha Test

The Krippendorff's Alpha test was applied to assess the reliability of the content analysis results using 5% of the research sample (Krippendorff, 1989), consisting of four sustainability reports coded by two independent coders. After the sustainability and financial data were collected, descriptive analysis was subsequently performed.

Panel Regression

Data was analyzed using panel regression. Two models were constructed as follows.

$$ROA = \alpha + \beta_1 SD_EC + \beta_2 SD_EN + \beta_3 SD_SO + \beta_x Controls + \varepsilon$$

Note: SD_EC (Sustainability disclosure of economic dimension); SD_EN (Sustainability disclosure of environment dimension); SD_SO (Sustainability disclosure of social dimension)

$$ROA = \alpha + \beta_1 SP_EC + \beta_2 SP_EN + \beta_3 SP_SO + \beta_x Controls + \varepsilon$$

Note: SP_EC (Sustainability performance of economic dimension); SP_EN (Sustainability performance of environment dimension); SP_SO (Sustainability performance of social dimension).

Variable controls included in this research were (a) natural logarithm (ln) of company size (SIZE) as used by Tarigan and Samuel (2014), Ching et al. (2017), Laskar et al. (2017), Hussain et al. (2018), Pham et al. (2021), and Naeem and Cankaya (2022); (b) debt to equity ratio (DER) as used by Laskar et al. (2017), Hussain et al. (2018), and Naeem and Cankaya (2022); and (c) yearly sales growth (SALES_GROWTH) as used by Hussain (2015) and Hussain et al. (2018).

Model Selection and Panel Regression

The Chow Test, Breusch–Pagan Lagrange Multiplier Test, and Hausman Test were applied to identify the most appropriate panel regression model. Panel data regression analysis was then employed to examine the effect of sustainability disclosure and sustainability performance on accounting performance. Simultaneous testing using the F-test was performed to evaluate the joint effect of the independent and control variables on the dependent variable within the regression model. In

addition, partial testing using the t-test was conducted to assess the effects of sustainability disclosure and sustainability performance across each dimension on accounting performance.

Drawing on theoretical perspectives and empirical evidence from prior research, this study advances two primary hypotheses. The first hypothesis is based on the argument that sustainability disclosure increases transparency and strengthens corporate legitimacy from the perspective of stakeholders, which may enhance financial performance. The second hypothesis posits that strong sustainability performance represents the integration of sustainability principles into corporate strategy, which can potentially lead to operational efficiencies and value creation. The hypotheses in this study are as follows.

H₁: Sustainability disclosure has a positive effect on accounting performance (ROA).

H₂: Sustainability performance has a positive effect on accounting performance (ROA).

The research framework presented in Figure 2 is developed based on findings from previous studies that underpin the research model. The implementation of POJK Number 51 of 2017 requires companies to publish sustainability reports, thereby enabling corporate sustainability to be more easily identified, measured, and assessed. In this study, corporate sustainability is evaluated using two approaches: (1) sustainability disclosure and (2) sustainability performance, each of which comprises economic, environmental, and social dimensions. The relationships between (1) sustainability disclosure and accounting performance and (2) sustainability performance and accounting performance are examined to derive managerial implications.

RESULTS

Krippendorff Alpha Test

The Krippendorff's Alpha value for the sustainability disclosure score is 0.8215, while the sustainability performance score records a value of 0.8785. Both coefficients are above the generally accepted reliability threshold of 0.67, indicating a high degree of agreement between coders. Accordingly, the content analysis employed to assess sustainability disclosure and sustainability performance is considered both reliable and valid.

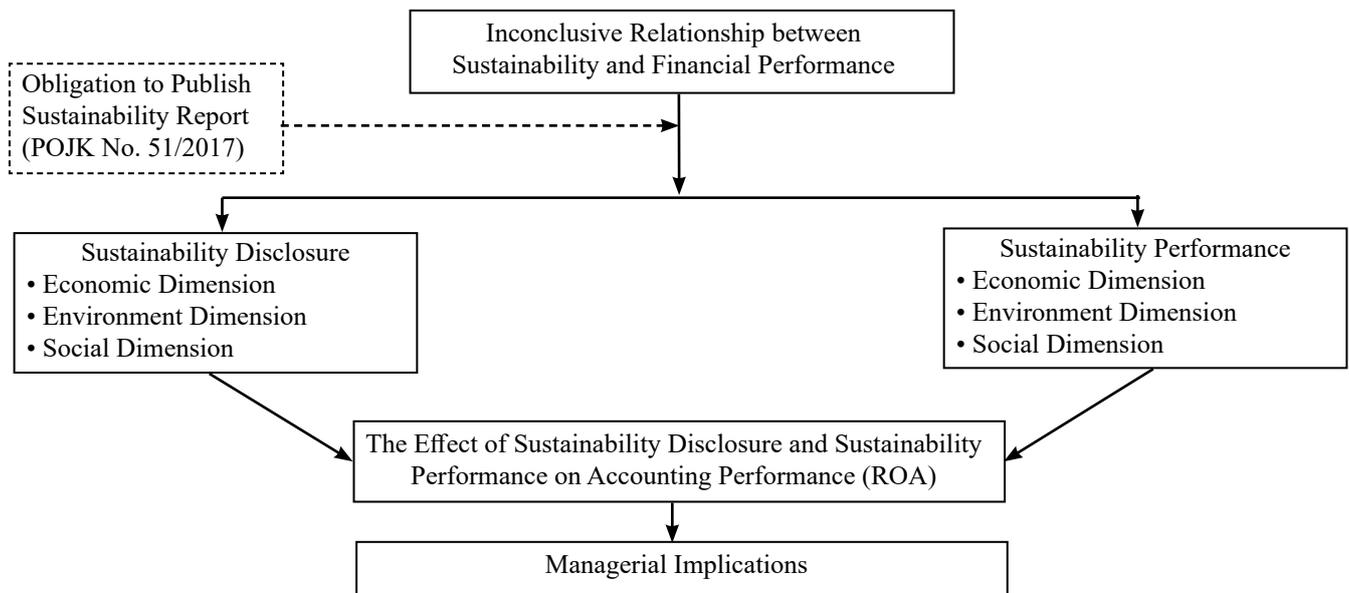


Figure 2. Research framework: the effect of sustainability on ROA

Descriptive Analysis

Overall, the company’s sustainability disclosure score shows an upward trend from 2020 to 2022 (Figure 3). This increase indicates growing corporate awareness and understanding of sound sustainability disclosure practices. In addition to the upward trend, the disclosure scores across dimensions also tend to be relatively consistent. This suggests that companies increasingly regard the three sustainability dimensions as equally important. The rise in sustainability disclosure scores is consistent with voluntary disclosure theory. Although sustainability reporting has become mandatory, companies continue to improve the quality of their disclosures in order to signal strong sustainability performance.

The sustainability performance score also exhibits an increasing trend over the 2020–2022 period (Figure 4). Ideally, sustainability performance scores should move in line with disclosure scores. This trend indicates that companies are progressively integrating sustainability practices or performance into their business operations. Nevertheless, the sustainability performance score for the environmental dimension increases more gradually than those of the economic and social dimensions. This suggests that, despite improvements in environmental disclosure, the implementation of environmental sustainability practices remains a challenge for companies.

It is expected that (a) sustainability disclosure and sustainability performance scores will continue to rise;

(b) the gap between disclosure scores and performance scores will narrow indicating that a greater proportion of disclosed indicators reflect positive or neutral performance; and (c) improvements will occur across all sustainability dimensions.

Model Selection

Dataset 1: Sustainability Disclosure

The Chow Test produced a probability value (F-statistic) of 0.000, indicating that the Fixed Effect Model is preferred over the Common Effect Model. The Lagrange Multiplier Test also yielded a probability value (F-statistic) of 0.000, suggesting that the Random Effect Model is more appropriate than the Common Effect Model. Subsequently, the Hausman Test resulted in a probability value (F-statistic) of 0.0006. The Fixed Effect Model (FEM) is determined to be the most suitable model for the first dataset.

Dataset 2: Sustainability Performance

The Chow Test resulted in a probability value (F-statistic) of 0.000, indicating that the Fixed Effect Model is more appropriate than the Common Effect Model. The Lagrange Multiplier Test likewise produced a probability value (F-statistic) of 0.000, leading to the selection of the Random Effect Model over the Common Effect Model. The Hausman Test yielded a probability value (F-statistic) of 0.0047. The Fixed Effect Model (FEM) is concluded to be the most suitable model for the second dataset.

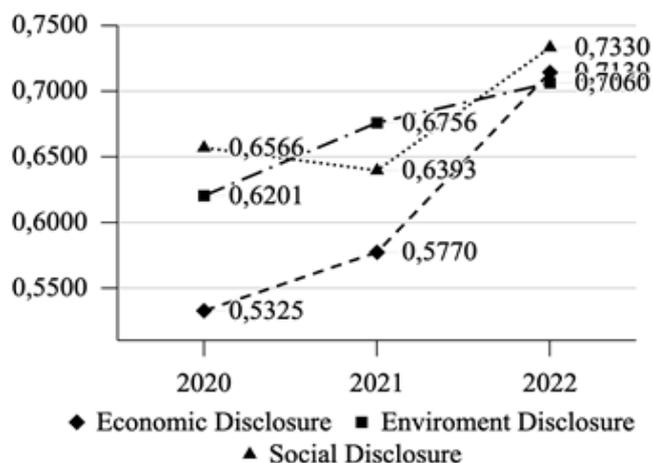


Figure 3. Average sustainability disclosure score of LQ45 companies 2020–2022

Regression Result

The coefficient of the economic dimension of sustainability disclosure (SD_EC) on ROA is negative, amounting to -0.0633 with a probability value of 0.253 (Table 1). Consistent with the findings of Irma and Lestari (2021) and Nofianto (2014), SD_EC does not have a significant effect on ROA. The coefficient of the environmental dimension of sustainability disclosure (SD_EN) on ROA is also negative, with a value of -0.0596 and a probability of 0.101. This result indicates that SD_EN does not significantly affect ROA, in line with the studies of Barutu (2024), Prabawati et al. (2022), and Handoyo and Anas (2024). In contrast, the coefficient of the social dimension of sustainability disclosure (SD_SO) on ROA is positive, at 0.1518, with a probability of 0.066. This finding shows that SD_SO has a significant positive effect on ROA, supporting the results reported by Bukhori (2017), Wijayanti (2016), Rahim et al. (2024), and Berliani (2013). Therefore, sustainability disclosure exerts a positive and significant effect on accounting performance in the social dimension. Accordingly, hypothesis 1 is accepted.

The coefficient of the economic dimension of sustainability performance (SP_EC) on ROA is negative, with a value of -0.0558 and a probability of 0.277, indicating that SP_EC does not have a significant effect on ROA (Table 2). The coefficient of the environmental

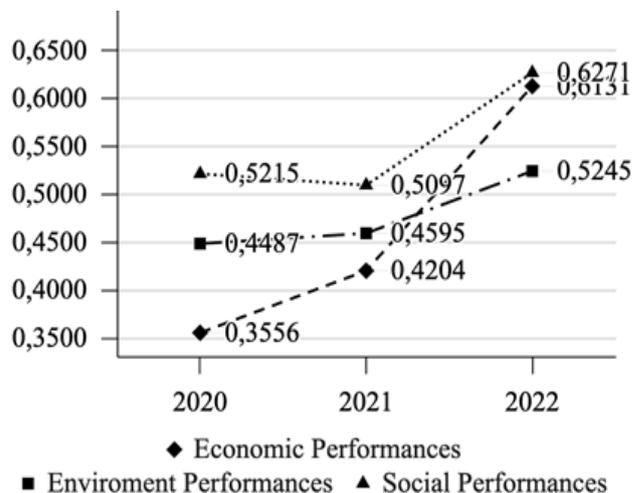


Figure 4. Average sustainability performance score of LQ45 companies 2020–2022

dimension of sustainability performance (SP_EN) on ROA is also negative, amounting to -0.0419 with a probability value of 0.302, which shows that SP_EN does not significantly affect ROA. Meanwhile, the coefficient of the social dimension of sustainability performance (SP_SO) on ROA is positive, at 0.1236, with a probability of 0.139; however, this effect is not statistically significant. Overall, sustainability performance across all dimensions does not have a significant effect on accounting performance as measured by ROA. This finding contrasts with the results of Hussain et al. (2018), who report that SP_EN and SP_SO have a significant impact on ROA. Accordingly, hypothesis 2 cannot yet be accepted.

Economic Dimension

Both sustainability disclosure and sustainability performance in the economic dimension show negative but statistically insignificant effects on ROA. A negative relationship suggests that sustainability activities in the economic dimension generate additional costs that may reduce firm profitability (Buallay, 2019). Nevertheless, this relationship is not statistically significant. This condition may be explained by the relatively strong financial performance of the sampled firms (Nofianto 2014), which consist of companies included in the LQ45 index. Consequently, the costs associated with sustainability initiatives are offset by other higher revenues or efficiencies (Brammer et al. 2006).

Table 1. Dataset 1: The Effect of Sustainability Disclosure (SD) on ROA

Variable	Coefficient	t-test	Inference
SD_EC	-0.0633	0.253	Negative not significant
SD_EN	-0.0596	0.101	Negative not significant
SD_SO	0.1518	**0.066	Positive significant
Size	0.1968	*0.000	Positive significant
DER	-0.0655	*0.005	Negative significant
Sales_Growth	0.0843	*0.003	Positive significant
Constant	-6.1194	-	-

*Significant at $\alpha = 0.05$; **Significant at $\alpha = 0.1$

Table 2. Dataset 2: The Effect of Sustainability Performance (SP) on ROA

Variable	Coefficient	t-test	Inference
SD_EC	-0.0558	0.277	Negative not significant
SD_EN	-0.0419	0.302	Negative not significant
SD_SO	0.1236	0.139	Positive significant
Size	0.1937	*0.000	Positive significant
DER	-0.0667	*0.006	Negative not significant
Sales_Growth	0.0878	*0.003	Positive significant
Constant	-6.0183	-	-

*Significant at $\alpha = 0.05$

Environment Dimension

Both sustainability disclosure and sustainability performance in the environmental dimension exhibit negative but statistically insignificant effects on ROA. This negative relationship again suggests that environmental sustainability disclosure and performance impose additional costs that may reduce company profitability (Buallay, 2019). Lu and Taylor (2018) argue that firms with strong financial performance often demonstrate weaker environmental performance, and vice versa. The insignificant relationship may occur because the costs incurred for environmental sustainability are offset by the large scale of the firm.

Social Dimension

The social dimension of sustainability disclosure has a positive and significant effect on ROA, while social sustainability performance shows a positive but statistically insignificant effect. This finding is consistent with stakeholder theory, which suggests that firms achieve superior financial performance when they effectively manage relationships with their stakeholders

(Ho et al. 2024). Social disclosure, including information on employee welfare, responsibility for products and services, customer satisfaction, and community impacts, functions as a signal of a firm's commitment to its primary stakeholders. Transparent and credible disclosure helps build stakeholder trust by reducing information asymmetry and assuring employees, customers, and communities that the firm operates in a responsible manner.

In practice, companies that invest in employee welfare generally experience lower employee turnover and higher productivity (Krekel et al. 2019), while employee well-being itself has been shown to enhance productivity (Haddon, 2018). Adherence to product and service standards contributes to improved profitability (Punnakitikashem et al. 2010), and higher levels of customer satisfaction reinforce repeat purchasing behavior and revenue growth (Leo et al. 2009). Therefore, transparent social disclosure not only conveys these positive practices but also reinforces stakeholder confidence, which ultimately strengthens firm stability, operational efficiency, and accounting performance.

Sustainability Disclosure vs Sustainability Performance

Papoutsis and Sodhi (2020) argue that sustainability disclosure serves as an indicator of sustainability performance. Consistent with this view, Herbohn et al. (2014) find that sustainability disclosure is positively associated with sustainability performance. Nevertheless, the findings of this study reveal that the relationship between sustainability disclosure and accounting performance differs significantly from the relationship between sustainability performance and accounting performance. This result is consistent with Horváthová (2010), who emphasizes that the association between sustainability and firm performance is influenced by the measurement approach used to assess sustainability.

Sustainability in Short-Term and Long-Term

This study examines sustainability disclosure over a three-year period and its association with financial performance within the same year, reflecting a short-term perspective. In the short run, sustainability disclosure represents an additional cost for firms (Buallay 2019), as initial investments in sustainability activities are required. Consequently, this study finds a negative relationship between sustainability disclosure and sustainability performance in the economic and environmental dimensions and accounting performance. Nonetheless, companies are encouraged to continue disclosing sustainability information and to enhance their sustainability performance (Nofianto, 2014). The financial performance benefits of sustainability are more likely to be realized in the long term (Handoyo and Anas, 2024; Adams 2012), partly due to improvements in operational efficiency.

Obligation to Publish Sustainability Report

Since the implementation of mandatory sustainability reporting, the economic value of sustainability disclosure has been increasingly questioned (Rudyanto 2020). Within a mandatory disclosure setting, companies can no longer depend on sustainability reporting solely as a means of differentiation. The results of this study indicate that while certain sustainability dimensions do not exert a significant financial effect, social disclosure continues to generate observable financial benefits. This finding suggests that the quality and emphasis of disclosure are more critical

than simple compliance with regulatory requirements. Accordingly, mandatory reporting does not remove the economic value of sustainability disclosure; rather, it compels firms to adopt sustainability practices in a more strategic manner.

Comparison with Previous Meta-Analysis Studies

Relative to global evidence, this study provides more context-specific insights into the relationship between sustainability and financial performance in Indonesia. Meta-analyses by Horváthová (2010), Aggarwal (2013), Wang et al. (2015), and Alshehhi et al. (2018) show that the sustainability–performance relationship remains largely inconclusive, varying across measurement methods, industries, and time periods. Although Alshehhi et al. (2018) find that most studies report a positive relationship, prior research does not clearly identify which sustainability dimensions are most influential. In contrast to Horváthová (2010), who highlights inconsistent global patterns, this study identifies a clear and significant positive effect of the social dimension of sustainability disclosure in Indonesia’s mandatory reporting context. Meanwhile, the insignificant effects for the economic and environmental dimensions are consistent with evidence that sustainability initiatives often generate short-term costs in emerging markets. Accordingly, this study contributes new evidence that social-related disclosure is the sustainability dimension most strongly associated with improved financial performance in Indonesia.

Managerial Implications

Although sustainability initiatives can increase costs in the short term, firms are encouraged to continue enhancing both sustainability disclosure and substantive sustainability performance in order to obtain long-term benefits such as operational efficiency, stronger reputation, and greater stakeholder trust. The significant positive relationship between social disclosure and financial performance indicates that companies should prioritize investments in employee welfare, product responsibility, customer satisfaction, and adherence to product and service standards. These priorities can be implemented by improving internal systems for collecting social-related data, embedding social KPIs into performance appraisal processes, and ensuring transparent disclosure that is consistent with GRI indicators.

Investors are advised to consider sustainability disclosure, particularly social-related indicators, in their investment decision-making. This can include screening companies with strong social practices, engaging with firms to enhance the quality of their disclosures, or incorporating sustainability considerations into portfolio strategies. Such market-based pressure may encourage companies to sustain high-quality sustainability reporting and to improve their underlying practices.

The implementation of POJK Number 51 of 2017 has successfully improved sustainability disclosure and sustainability performance scores. Regulators can further build on this development by issuing more detailed technical guidance on disclosure quality, carrying out regular evaluations of report completeness, or offering incentives to firms that achieve high reporting standards. Considering the proven financial importance of social disclosure, policymakers may also reinforce regulations related to labor welfare, product safety, and customer protection to ensure alignment between reported information and actual corporate practices.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Content analysis of 62 sustainability reports from 24 LQ45 companies over the 2020–2022 period indicates a steady increase in both sustainability disclosure and sustainability performance, which is likely influenced by the mandatory reporting requirement under POJK 51/2017. The panel regression results show that economic and environmental disclosures have negative but statistically insignificant effects on ROA, whereas social disclosure exhibits a positive and significant effect. Sustainability performance in all dimensions does not demonstrate a significant relationship with ROA, although the direction of the coefficients is consistent with the corresponding disclosure measures. These results suggest that stakeholder-oriented practices particularly those related to employee welfare, product responsibility, and customer satisfaction can enhance short-term accounting performance, while economic and environmental initiatives may involve costs before generating observable financial benefits.

From a practical and policy standpoint, firms should prioritize strengthening social-related disclosures and initiatives to build stakeholder trust and support financial performance. Regulators may also consider providing guidance or incentives to encourage firms to improve the quality and depth of economic and environmental disclosures so that mandatory reporting is more closely aligned with long-term value creation. This study has several limitations, including a relatively small sample size and a short observation period during the initial phase of mandatory sustainability reporting. External validity is limited because the sample consists only of large, well-governed non-financial LQ45 companies, which restricts the generalizability of the findings to smaller firms, companies with lower market capitalization, or industries facing different sustainability pressures. In addition, the 2020–2022 observation period may limit the ability of the results to capture longer-term sustainability practices.

Recommendations

Future research should broaden the sample by increasing the number of firms, expanding industry coverage, and extending the observation period to improve generalizability. Scholars may also consider using additional measures of financial performance (e.g., ROE, Tobin's Q) to capture a wider range of sustainability impacts. A comparative analysis conducted before and after the implementation of POJK Number 51 of 2017 could offer more comprehensive insights into regulatory effects. Further studies may place stronger emphasis on sustainability performance scores to evaluate the substantive outcomes of sustainability practices beyond the quality of disclosure.

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