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What Drives Sustainability Disclosure in State-owned Enterprises? Insights From Financial and Governance Perspectives in Indonesia

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Abstract

This study explores the financial and governance factors influencing sustainability reporting (SR) among Indonesian State-Owned Enterprises (SOEs). Using panel data from SOEs listed on the Indonesia Stock Exchange (2020–2023), it examines the effects of leverage (DER), earnings management (EM), institutional ownership (INST), profitability (ROA), and firm size (SIZE) on SR. SR was measured through content analysis based on the GRI Standards. The results show that DER and EM significantly influence SR, suggesting that disclosure is often driven by external pressure and managerial motives rather than genuine sustainability commitment. Industry type-based analysis further reveals that high-profile firms are more responsive to external scrutiny, while internal factors such as managerial strategy and ownership structure play a greater role in low-profile firms. These findings highlight the symbolic nature of SR in SOEs and underscore the need for stronger regulatory oversight to enhance reporting quality and accountability in the public sector.

Keywords: Sustainability Disclosure Practice, GRI, Financial, Government, SOEs

1. Introduction

Why do some companies produce comprehensive SR, while others disclose only the bare minimum? One possible explanation lies in differences in their internal financial structures and governance mechanisms. As SR evolves from a voluntary initiative into a global standard of accountability, stakeholders increasingly demand transparency on environmental, social, and governance (ESG) performance (Putri et al., 2025). Companies are expected to go beyond financial disclosures and prove their commitment to sustainable development. In the Indonesian context, the Financial Services Authority (OJK) Regulation No. 51/POJK/2017 mandates issuers, public companies, and financial institutions to publish SR, reinforcing the importance of transparent reporting practices. For SOEs, the obligation to publish SR is particularly critical due to their strategic role in driving national economic growth and achieving the SDGs (Ligorio et

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al., 2025). However, despite these regulatory requirements, the quality of SR among Indonesian SOEs remains inconsistent. While most SOEs comply by issuing reports, many offer only superficial disclosures, providing generic content without substantive ESG information (KPMG Indonesia, 2024). This raises questions regarding the adequacy of internal corporate mechanisms in ensuring credible and substantive SR. SOEs play a distinct role in Indonesia's economy, being tasked not only with generating profits but also with promoting public interest and supporting national development. This dual mandate introduces complex challenges in balancing accountability and performance. Evidence suggests that the quality of SR stems not just from regulatory mandates but also from internal financial conditions and governance structures (Mukono & Dubihlela, 2022).

Among the key drivers that may influence SR are financial leverage (DER), earnings management (EM), and institutional ownership (INST). Leverage reflects a company's reliance on debt financing, which may pressure management to enhance disclosure to reassure creditors and reduce perceived risk (Balarabe & Iliyasu, 2024). Meanwhile, EM practices used to manipulate reported profits may negatively impact transparency and signal potential agency problems (Akileng, 2014; Jensen & Meckling, 1976). On the other hand, institutional ownership (INST), with its monitoring power and long-term investment horizon, is often associated with improved governance and increased pressure for credible SR (Akileng, 2014). To strengthen the analysis, this research controls for firm profitability (ROA) and firm size, both of which have been consistently associated with disclosure practices in prior literature (Nawaiseh, 2015; Yohana & Suhendah, 2023). Larger and more profitable firms often possess greater resources and reputational incentives to engage in comprehensive SR (Mardiati et al., 2023; Ting, 2021).

Although SR has become a global expectation, much of the existing literature has primarily focused on private firms or multinational corporations in developed countries, where institutional structures and governance mechanisms are well-established (Hahn & Kühnen, 2013). In contrast, there is limited empirical evidence on how SOEs in emerging economies, particularly those in Indonesia, respond to SRD regulations. This underexplored context is critical, given that SOEs operate under different performance logics that balance profit generation with public accountability, compared to their private-sector counterparts (Disyon et al., 2022; Garde-Sanchez et al., 2018; Lee et al., 2022).

Previous studies have examined the influence of corporate governance on SR; however, the findings remain inconclusive. For instance, some researchers suggest that institutional ownership promotes better disclosure due to active monitoring and pressure for transparency (M. Jizi, 2017; Prado-Lorenzo & Garcia-Sanchez, 2010). However, other studies report weak or even negative associations, particularly in contexts where institutional investors are passive or politically affiliated, conditions that are common in SOEs (Al-Fayoumi et al., 2010; Dyck et al., 2019). This creates ambiguity about whether institutional ownership in Indonesian SOEs functions as an effective governance mechanism. Similarly, the role of financial characteristics such as debt levels and EM practices on SR remains insufficiently understood. While some scholars argue that higher leverage increases pressure for transparency to appease creditors (Boachie & Tetteh,

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2021; Hamrouni et al., 2020). Others suggest it may encourage companies to divert attention from poor financial health through symbolic ESG disclosures (Mahoney et al., 2013). Likewise, EM has been linked to reduced transparency (Cormier & Magnan, 2015; Gaio et al., 2022). Yet, there is a lack of empirical clarity on whether such practices undermine or strategically enhance SR in SOEs (Sun, 2024). By addressing these gaps, this study not only enriches the theoretical discourse on SR determinants but also offers policy-relevant insights for regulators, stakeholders, and corporate managers striving to enhance transparency and accountability in SOEs.

2. Literature Review

2.1 Agency Theory

Agency theory (Jensen & Meckling, 1976) highlights that information asymmetry between shareholders and managers may lead to opportunistic behaviors such as earnings manipulation and selective disclosure. To mitigate these agency problems, institutional ownership serves as a key governance mechanism, as institutional investors often push for greater transparency, including SR (Shaukat et al., 2016; Velte, 2020a). EM, though commonly viewed negatively, may be used strategically to shape positive public perceptions through SRD, particularly in SOEs (Chih et al., 2008; Prior et al., 2008). High leverage increases agency conflicts between shareholders and creditors, encouraging firms to enhance ESG disclosure to reduce risk perceptions (Hussain et al., 2018; Jensen, 1986). Profitability (ROA) and firm size also influence disclosure; larger and more financially successful firms are generally inclined to disclose more extensive sustainability information due to stronger stakeholder scrutiny and legitimacy pressures (Cormier & Magnan, 2007; Qiu et al., 2016). Thus, agency theory (Jensen & Meckling, 1976) provides a useful lens to examine how ownership, financial pressure, and firm characteristics shape SR in SOEs.

2.2 Stakeholder Theory

Stakeholder theory (Freeman, 1984) asserts that firms must account for the interests of multiple stakeholder groups in their strategic decisions. In the context of SR, this theory suggests that firms engage in voluntary disclosure to maintain legitimacy and secure ongoing stakeholder support (Jizi et al., 2014). Institutional ownership can enhance SRD quality, as institutional investors often demand transparency aligned with stakeholder concerns (Velte, 2020). Leverage prompts firms to disclose more to reduce creditor risk perception (Hussain et al., 2018). Meanwhile, EM may be used strategically to shape external perceptions, including through SRD (Chih et al., 2008). Firm size and profitability also drive greater disclosure due to higher visibility and stakeholder pressure (Qiu et al., 2016).

2.3 Sustainability Reporting (SR)

SR denotes the corporate practice of reporting on ESG performance to ensure transparency and accountability (GRI, 2021). It aims to provide stakeholders with comprehensive insights into a company's contribution to sustainable development beyond financial performance (GRI, 2021). SR has become a global standard of transparency and accountability, particularly as stakeholders

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increasingly demand disclosure on corporate sustainability practices (GRI, 2021). In Indonesia, the Financial Services Authority (OJK) issued Regulation No. 51/POJK.03/2017, requiring financial institutions, issuers, and public companies to prepare and publish SR. The regulation corresponds with international standards, notably the GRI framework, which outlines comprehensive disclosure guidelines spanning economic (GRI 200), environmental (GRI 300), and social (GRI 400) dimensions.

For SOEs, compliance with these requirements is crucial because of their dual responsibility: achieving financial objectives while contributing to ESG goals mandated by the government. However, empirical evidence indicates that the quality of SR in Indonesia varies significantly, with many companies adopting a compliance-oriented approach rather than providing substantive information (KPMG, 2023). High-quality SR enhances corporate legitimacy, stakeholder trust, and long-term value creation (Sulemana et al., 2025). It also serves as a risk management tool, reducing information asymmetry and improving investor confidence. However, the quality of SR depends on internal governance mechanisms, including ownership structure (Al Fadli et al., 2022; Ali et al., 2024). SR disclosure is commonly assessed using GRI-based disclosure indices, which evaluate the extent of disclosures across ESG dimensions. The index typically uses a content analysis approach, assigning a score based on the presence and completeness of each indicator.

2.4 Theoretical Framework

This study is theoretically grounded in agency theory and stakeholder theory, which offer the rationale for analyzing how governance mechanisms and financial decisions influence sustainability reporting, as illustrated in Figure 1. Agency theory explains how managerial decisions, influenced by leverage, earnings management, and institutional ownership, may create conflicts of interest between managers and stakeholders. Meanwhile, stakeholder theory emphasizes the importance of accountability and transparency to meet the expectations of diverse stakeholder groups. These theoretical perspectives guide the proposed framework, where financial and governance mechanisms influence the extent and quality of sustainability reporting, which in turn enhances legitimacy, trust, and the long-term sustainability of state-owned enterprises.

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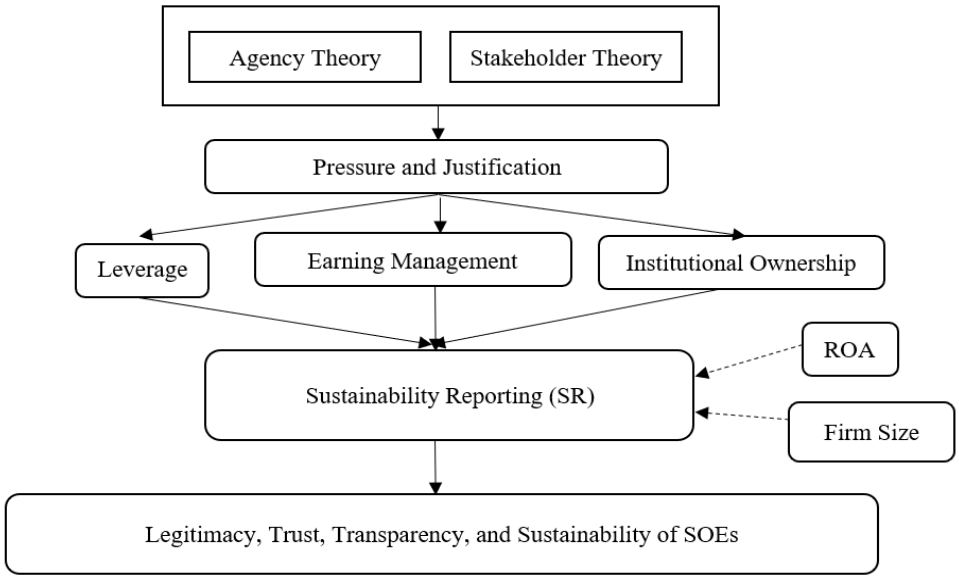

Figure 1. Theoretical Framework

2.5 Conceptual Framework

To provide a clearer overview of the proposed relationships, the conceptual framework is presented prior to the theoretical framework. This framework illustrates the role of financial and governance. This study's conceptual framework is illustrated as follows:

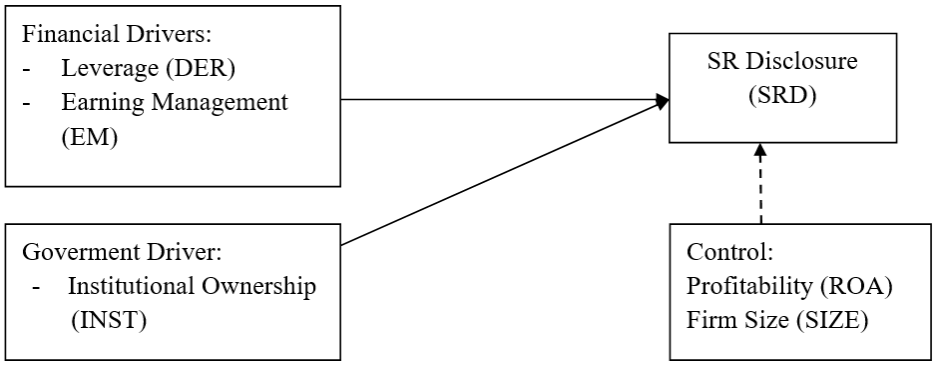

Figure 2. Conceptual Framework

The researcher formulated the following hypothesis:
H1: Leverage has a positive effect on SR in Indonesian SOEs
H2: Earnings management has a positive effect on SR in Indonesian SOEs.
H3: Institutional ownership has a positive effect on SR in Indonesian SOEs.

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Control Variabel Hypothesis as follows:
H4: Profitability has a positive effect on SR in Indonesian SOEs.
H5: Firm size has a positive effect on SR in Indonesian SOEs.

3. Method

This study employs a quantitative approach, utilizing secondary data sourced from the annual reports and SR of Indonesian SOEs listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023. The sample was selected using purposive sampling based on the following criteria: (1) state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) during 2020–2023, (2) consistently published annual and/or sustainability reports throughout the observation period, (3) had complete data for all research variables, including DER, earnings management, institutional ownership, SR, ROA, and firm size, Data analysis employs panel data regression using EViews, with model selection based on Chow, Hausman, and Lagrange Multiplier tests.

3.1 Dependent Variabel

Sustainability Reporting (SR)

Sustainability reporting is measured using content referring to the Global Reporting Initiative (GRI) Standards. The disclosure items assessed cover GRI 200 (Economic), GRI 300 (Environmental), and GRI 400 (Social). The total number of items assessed was 81 disclosure indicators. Each disclosure item is given a score: 1 = item disclosed and 0 = item not disclosed. The SR index (SRI) then calculated as:

$$\text{SR Index}=\frac{\sum_{i=1}^{n} di}{n}$$

Where:
d*i* = 1 if item *i* is disclosed, 0 otherwise,
n = total number of disclosure items based on GRI standards.

This approach ensures consistency and comparability across SOEs and research periods (2020–2023), while also aligning with the international reporting standard (GRI, 2021; Indrianingsih & Agustina, 2020; Sebrina et al., 2023).

3.2 Independent Variable

3.2.1 Leverage

Leverage is measured using the Debt to Equity Ratio (DER), which reflects the ability of the company to be financed by debt.

$$\text{DER}=\frac{\text{Total Liabilites}}{\text{Total Equity}}$$

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Higher DER indicates greater reliance on debt financing, which may increase pressure for transparent reporting to assure creditors and stakeholders (Indrianingsih & Agustina, 2020; Nawaiseh, 2015; Yohana & Suhendah, 2023).

3.2.2 Earning Management

Earnings management is measured using the Modified Jones Model, which is the most widely used model in prior accounting research (Dechow et al., 1995). The process of calculating discretionary accruals involves the following steps:

1) Calculate Total Accuals (TAAC):
   TACCit= Nit – CFOit

Where:NIit = Net Income of firm i in year t,
CFOit = Cash Flow from Operations.
Then, total accruals (TAC) are estimated using Ordinary Least Squares (OLS) to obtain the following regression equation:

$$\frac{TAC_{it}}{A_{it-1}} = \beta 1\left(\frac{1}{A_{it-1}}\right) + \beta 2\left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta 3\left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon$$

2) Estimate Non-Discretionary Accrual (NDACC)

$$NDA_{it} = \beta 1\left(\frac{1}{A_{it-1}}\right) + \beta 2\left(\frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}}\right) + \beta 3\left(\frac{PPE_{it}}{A_{it-1}}\right)$$

3) Calculate discretionary accrual (DAC)

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$$

Where:

TAC_{it}	: Total accruals of firm *i* in year *t*
A_{it-1}	: Total assets of firm *i* in year *t–1*
NI_{it}	: Net income of firm *i* in year *t*
CFO_{it}	: Operating cash flow of firm *i* in year *t*
ΔREV_{it}	: Revenue of firm *i* in year *t* minus revenue of firm *i* in year *t–1*
ΔREC_{it}	: Accounts receivable of firm *i* in year *t* minus accounts receivable of firm *i* in year *t–1*
PPE_{it}	: Property, plant, and equipment of firm *i* in year *t*
DA_{it}	: Discretionary accruals of firm *i* in year *t*
NDA_{it}	: Non-discretionary accruals of firm *i* in year *t*
ε	: error item

The absolute value of DA is used as the proxy for earnings management. Larger values indicate greater manipulation of accruals (Almahrog et al., 2018; Dechow et al., 1995; Gavana et al., 2017; Prior et al., 2008).

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3.2.3 Institutional Ownership

Institutional ownership represents the proportion of shares held by institutional investors. It is measured as:

$$INST = \frac{\text{Number of Institutional Shares}}{\text{Total Outstanding Shares}} x100\%$$

Higher institutional ownership is expected to strengthen monitoring and reduce agency problems, potentially increasing the quality of sustainability reporting (Amidjaya & Widagdo, 2020; Prado-Lorenzo et al., 2009; Velte, 2020)

3.3 Control Variable

3.3.1 Return on Assets

ROA measures profitability relative to total assets and is used as a control for firm performance. ROA reflects the ability of the company to generate profit (Choi et al., 2023; Indrianingsih & Agustina, 2020).

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

3.3.2 Firm Size

Firm size is measured as the natural logarithm of total assets

SIZE= Ln (Total Assets)
Firm size controls for variations in disclosure practices, since larger firms tend to have greater resources and higher pressure for transparency (Ghosh et al., 2023; Nawaiseh, 2015).

After describing the measurement of each variable, this study develops an empirical model to test the relationship between leverage, earnings management, and institutional ownership on sustainability reporting, while incorporating ROA and firm size as control variables. The empirical model is:

$$SR_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 EM_{it} + \beta_3 INST_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \varepsilon_{it}$$

4. Result and Discussion

4.1 Descriptive Statistics

This study employs a sample of Indonesian State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) that consistently disclosed both sustainability and financial reports throughout the 2020–2023 period. Based on the established sampling criteria, a total of 88 observations were obtained from 22 qualifying SOEs. The data constitute a balanced panel, allowing for consistent cross-sectional and time-series analysis. The statistical processing and empirical tests were conducted using EViews software to ensure methodological validity.

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Table 1. Statistic Descriptive Analysis

Variable	N	Mean	Maximum	Minimum	Std. Dev
DER	88	0.555514	2.667000	-0.514170	0.600558
EM	88	-0.042985	0.093452	-0.312898	0.084851
INST	88	0.663531	0.944721	0.327424	0.135867
ROA	88	-0.001552	0.281740	-0.948900	0.137339
SIZE	88	31.73072	35.31545	27.35636	1.841971
SR	88	0.455797	1.000000	0.098765	0.224974

Source: Eviews processed result

Based on Table 2, the descriptive statistics provide insights, DER, EM, INST, ROA, SIZE, and SR with respective mean values of 0.555514, -0.042985, 0.663531, -0.001552, 31.73072, and 0.455797. The descriptive analysis shows that the average of the SR score is 0.456, indicating a moderate level of disclosure among SOEs, with considerable variation (Std. Dev = 0.225). The average INST is 66.4%, reflecting the dominance of institutional investors in the ownership structure and their potential strong influence on corporate governance (CG) practices. The mean value of EM is slightly negative (-0.043), suggesting a tendency for companies to adopt a conservative approach in financial reporting. Meanwhile, the average DER of 0.556 indicates a greater reliance on equity financing compared to debt, although the presence of a negative minimum value (-0.5141) may suggest the occurrence of negative equity or data anomalies. The average ROA is close to zero (-0.0016), implying relatively weak financial performance. Additionally, SIZE has a mean value of 31.73 with a Std. Dev of 1.84 indicates a moderate variation in company size across the sample.

4.2 Multicolinearity Test

Table 3. Multicolinearity Test Result

Variable	DER	EM	INST	ROA	SIZE
DER	1.000000	-0.045342	-0.099925	0.484170	-0.116751
EM	-0.045342	1.000000	-0.094356	0.316495	0.178767
INST	-0.099925	-0.094356	1.000000	-0.244720	-0.259048
ROA	0.484170	0.316495	-0.244720	1.000000	0.334347
SIZE	-0.116751	0.178767	-0.259048	0.334347	1.000000

Source: Eviews processed result

The correlation matrix in Table 3 indicates that the highest correlation among independent variables is 0.484 (between DER and ROA), and all coefficients are below the 0.80 cut-off point. These results confirm the absence of multicollinearity, validating the inclusion of all independent variables in the regression analysis (Gujarati & Porter, 2009).

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4.3 Heteroscedasticity Test

Table 4. Heteroscedasticity Test Result

	Coefficient	Std. Error	t-Statistic	Prob.
C	0.149367	0.348130	0.429054	0.6694
DER	0.024204	0.024118	1.003561	0.3196
EM	0.220821	0.148981	1.482208	0.1435
INST	0.013034	0.103152	0.126361	0.8999
ROA	0.041254	0.104858	0.393429	0.6954
SIZE	-0.001055	0.010779	-0.097845	0.9224

Source: Eviews processed result

The heteroscedasticity test results presented in Table 4 indicate that all independent variables have probability (p-value) scores above 0.05, including DER (0.3196), EM (0.1435), INST (0.8999), ROA (0.6954), and SIZE (0.9224). These results suggest the absence of heteroscedasticity within the model, thereby confirming that the regression model satisfies the assumption of homoscedasticity and is suitable for further analysis (Ghozali, 2018).

4.4 Model Selection

To identify the most suitable estimation technique for panel data regression, this study performed a series of model specification tests, including the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. The Chow Test was employed to distinguish between the Common Effect Model (CEM) and the Fixed Effect Model (FEM), while the Hausman Test was used to determine whether the FEM or Random Effect Model (REM) was more appropriate. Meanwhile, the LM Test assessed the suitability of REM in comparison to CEM. The outcomes of these diagnostic tests informed the selection of the optimal estimation method for each regression model. A summary of the model specification results is presented below:

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Table 5. Model Specification Test Results

Regression Model	Chow Test (FEM vs CEM)	Hausman Test (FEM vs REM)	LM Test (REM vs CEM)	Preferred Model
Regression Model 1				
DER EM, INST, ROA, SIZE → SR	P = 0.0415	P = 0.0310	P = 0.3681	Fix Effect Model (FEM)
Regression Model 2 for High Profile Category				
DER EM, INST, ROA, SIZE → SR	P = 0.3363	P = 0.7840	P = 0.7025	Common Effect Model (CEM)
Regression Model 3 for Low Profile Category				
DER EM, INST, ROA, SIZE → SR	P = 0.0067	P = 0.0000	P = 0.5677	Fix Effect Model (FEM)

Source: Eviews processed result

4.5 Hypothesis Test

Table 6. Hypothesis Test Result

	Coefficient	Std. Error	t-Statistic	Prob.	Interpretation
DER	0.164478	0.055946	2.939946	0.0047	Accepted (H1)
EM	1.060235	0.345590	3.067903	0.0032	Accepted (H2)
INST	0.129892	0.239281	0.542842	0.5892	Rejected (H3)
ROA	-0.070987	0.243239	-0.291840	0.7714	Rejected (H4)
SIZE	-0.032640	0.025004	-1.304389	0.1967	Rejected (H5)

Source: Eviews processed result

Based on the regression results presented in Table 6, the DER and EM show positive coefficients of 0.164478 and 1.060235, respectively, and are statistically significant (p-value for DER = 0.0047, p-value for EM = 0.0032 < 0.05). Meanwhile, other variables such as INST, ROA, and SIZE do not show significant contributions to the research findings. The first finding indicates that higher corporate DER increases the likelihood of SRD. This result supports hypothesis H1 is aligned with agency theory (Jensen & Meckling, 1976). It is explained that firms with high levels of debt face pressure from creditors to enhance transparency, including through SR. SR serves as a monitoring mechanism to reduce conflicts between managers and creditors (Balarabe & Iliyasu, 2024). Furthermore, from the perspective of stakeholder theory (Freeman, 1984), SR serves as a communication tool to external stakeholders, signaling that the company is capable of managing financial risks while maintaining its commitment to social responsibility (Freeman, 1984; Jensen, 1986; Widarjo et al., 2024).

Firms with high levels of debt are more likely to face greater expectations from institutional investors and capital markets regarding responsible corporate governance practices, including SR

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(Hussain et al., 2018). More specifically, within SOEs, SR acts as a structured monitoring mechanism in several ways. Internally, the requirement to disclose sustainability performance disciplines managers to align operational practices with government sustainability objectives and regulatory frameworks (such as POJK 51/2017). This reduces agency costs by making managerial actions more transparent and accountable. Externally, SR provides creditors, regulators, and the wider public with verifiable information on how SOEs manage economic, environmental, and social risks (GRI 200, 300, and 400 series). This monitoring function helps stakeholders to evaluate whether SOEs are fulfilling their dual mandate, not only generating profits but also contributing to sustainable development. Therefore, the positive association between DER and SR confirms that sustainability reporting functions as a practical monitoring tool, reducing information asymmetry between managers, creditors, and regulators in SOEs. This finding aligns directly with agency theory predictions while reinforcing the stakeholder perspective that transparency is essential for maintaining legitimacy and trust.

The second finding reveals that EM influences firms to engage in SR (Presented in Table 6). From the perspective of agency theory (Jensen & Meckling, 1976), managers may use EM practices to meet performance targets or influence investor perceptions, and subsequently obscure such actions by increasing SRD as a camouflage strategy (Prior et al., 2008). Meanwhile, stakeholder theory (Freeman, 1984) posits that SR can be strategically utilized to build legitimacy and mitigate potential public pressure when firms engage in opportunistic behavior (Clarkson et al., 2008). Thus, SR does not always reflect genuine accountability but may also function as a symbolic tool to enhance corporate image. Furthermore, recent research by Ningsih et al. (2023) indicates that firms in Indonesia engaging in EM tend to improve the quality of their SR not as a form of transparency, but rather as a means of symbolic legitimacy. A similar study conducted in Vietnam by Nguyen et al. (2024) reveals that firms with high earnings opacity are more likely to intensify their CSR activities to obscure aggressive earnings practices, despite the negative impact on long-term performance. Accordingly, SR practices can be exploited as a rhetorical (window-dressing) strategy by management to protect reputation and manage stakeholder perceptions. These findings reinforce prior studies by Prior et al. (2008) and Clarkson et al. (2008), particularly relevant in the context of emerging markets. Thus, the evidence suggests that sustainability reporting can serve a dual role both as a medium of accountability and as a symbolic instrument, depending on the managerial motives behind its adoption.

Finally, Hypothesis 3 is rejected (Presented in Table 6), as the institutional ownership variable shows no significant effect on SR (coefficient = 0.129892; p-value = 0.5892). The rejection of H3 suggests that, in the context of Indonesian SOEs, a high proportion of INST does not necessarily support the improvement in the quality or intensity of SRD. From the perspective of stakeholder theory (Freeman, 1984), this result implies that not all institutional investors represent the broader social and environmental interests of stakeholders. Prado-Lorenzo et al. (2009) explain that the characteristics and orientations of investors influence their monitoring of sustainability practices, where short-term or profit-oriented institutions tend to exert less pressure for ESG disclosures. Meanwhile, from an agency theory perspective (Jensen & Meckling, 1976),

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although INST can serve as a mechanism to monitor management, its effectiveness heavily depends on the attention and capacity of these institutions to address agency conflicts (Yahaya, 2025). When sustainability is not prioritized, pressure for non-financial information transparency tends to be weak.

This finding is further supported by Wicaksono et al. (2024) reveal that the effect of INST on environmental disclosure depends on the origin of the institution. Institutions from developed countries promote transparency, whereas those from developing countries may negatively influence disclosure, particularly in non-sensitive industries. In the context of Indonesian SOEs, the effectiveness of institutional roles in promoting SR appears limited. Tan & Zarefar (2022) found that institutional investors do not significantly strengthen the relationship between CG and SRD. Similarly, revealed that SOEs do not outperform private firms in climate change reporting, highlighting institutional shortcomings in addressing social and environmental needs. Furthermore, Rupilu & Tanan (2023) discovered that government intervention and organizational discretion do not moderate CSR disclosure, reaffirming that bureaucratic and regulatory structures may hinder the effectiveness of institutions as practical monitors of reporting behavior. Taken together, these results indicate that institutional ownership in SOEs does not effectively function as a monitoring mechanism for sustainability reporting. This reinforces the theoretical implication that agency conflicts and stakeholder demands cannot be addressed solely through ownership structure, but require stronger regulatory enforcement and alignment of investor priorities with sustainability goals.

4.6 Control Variable

Table 6. reveals that the control variables ROA and SIZE exhibit negative coefficients of -0.070987 and -0.032640, respectively, and are statistically insignificant (p-value ROA = 0.7714, p-value SIZE = 0.1967 > 0.05). Based on the findings, hypotheses 4 and 5 are rejected. The insignificance of ROA and firm size concerning SR suggests that financial performance and business scale are not yet the primary drivers of SRD among Indonesian SOEs. This may be attributed to the dominance of regulatory compliance and symbolic approaches to reporting, rather than being driven by efficiency or internal corporate capacity. Within the framework of agency and stakeholder theories (Freeman, 1984; Jensen, 1986), these findings reflect that internal factors such as ROA and SIZE do not necessarily promote sustainability practices. Research by Ding & Wang (2025) and Yu & Zheng (2020) also demonstrates that, in developing countries, ESG transparency is more influenced by external pressures, including regulation, institutional ownership, and social demands, rather than internal financial indicators. This is supported by Benvenuto et al. (2023), Hussain et al. (2018) Milne & and Gray (2013), who argue that SR in developing economies often serves as a tool of political legitimation and a response to external pressures, rather than a reflection of financial performance, such as ROA and SIZE. Thus, sustainability practices tend to be leveraged as a form of institutional image management, rather than a genuine representation of a firm's financial condition. Collectively, these results reflect that financial capacity and firm scale are not the main determinants of sustainability disclosure in SOEs, highlighting the predominance of regulatory compliance and legitimacy-driven motives over internal performance factors.

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4.7 Further Analysis

As an additional analysis, this study classifies firms into high-profile and low-profile categories based on industry sensitivity, assessed through a dummy variable, following the approach developed by Fenxia & Tongtong (2025) and Patten (1991). In this classification, industries such as energy, oil and gas, healthcare, automotive, and transportation are consistently categorized as high-profile due to their high public visibility and significant environmental impact. Conversely, sectors like finance, construction, and property are considered low-profile industries, as they are characterized by relatively lower social and ecological exposure (Patten, 1991). Furthermore, separate regression analyses are conducted for each group to gain deeper insights into how financial and ownership characteristics influence SR practices within SOEs. The following are the results of hypothesis testing for the classified data:

Table 7. Hypothesis Test Result for High and Low Profile

Variable	Coeffiecient		Prob		Interpretation	
	High Profile	Low Profile	High Profile	Low Profile	High Profile	Low Profile
DER	0.226463	0.253945	0.0128	0.0160	Significant	Significant
EM	0.021195	3.657574	0.9638	0.0000	Not Significant	Significant
INST	0.221910	0.567298	0.5686	0.0411	Not Significant	Significant
ROA	0.039884	-2.144378	0.9041	0.0009	Not Significant	Significant Negative
DER	-0.001103	-0.058261	0.9772	0.0204	Not Significant	Significant Negative

Source: Eviews processed result

Table 7 presents the regression results for high-profile firms, indicating that the DER variable has a significantly positive effect on SR (coefficient = 0.226463; p-value = 0.0128). This finding implies that firms operating in sectors with high public and social visibility, such as energy and other heavy industries, tend to use SR as a strategic tool for communicating risks and addressing external stakeholder pressures. This behavior aligns with the assumptions of agency theory (Jensen & Meckling, 1976), which posits that disclosure can mitigate information asymmetry. The result is consistent with previous studies (Balarabe & Iliyasu, 2024; Reverte, 2009; Rupilu & Tanan, 2023; Yohana & Suhendah, 2023), which suggests that higher leverage encourages greater transparency, especially in environmentally sensitive industries.

In contrast to the high-profile group, the regression results for low-profile firms reveal that the variables DER, EM, and INST have a statistically significant effect on SR. These variables respectively show coefficients of 0.253945, 3.657574, and 0.567298, with p-values of 0.0160, 0.0000, and 0.0411. This indicates that internal factors, such as managerial strategies and institutional investors, play a more dominant role in driving SRD when external pressure is less prominent. These consistent findings support the study by Ehsan et al. (2020), which argues that the relationship between EM and CSR may be symbolic or used as a form of window-dressing in

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more closely monitored sectors, and also affirms the persistent influence of INST in such contexts (Zhang et al., 2021). It suggests that in industries less exposed to ESG-related scrutiny, internal strategic decisions are more influential in shaping a firm's commitment to sustainability (Liu et al., 2023; Wang, 2017). Interestingly, in the low-profile industry group, both ROA and firm size exhibit a significant negative effect on SR (Elbardan et al., 2023; Mardiati et al., 2023). This implies that highly profitable or large-scale firms tend to reduce SRD (Mardiati et al., 2023). This aligns with agency theory (Jensen & Meckling, 1976), which posits that large, established firms may feel more insulated from external pressure and thus perceive SR as a cost burden with limited strategic benefit. These findings are consistent with Bezerra et al. (2024) and Chen et al. (2025), who show that large companies in developing countries often delay ESG investments in favor of operational efficiency. Overall, the comparative results between high-profile and low-profile firms highlight the dual nature of SR: while in highly visible industries, SR functions primarily as a risk management and legitimacy tool, in less scrutinized sectors, it is shaped more by internal governance dynamics and managerial discretion. This underscores the importance of contextualizing SR practices within both industry sensitivity and institutional frameworks.

5. Conclusion and Suggestion

This study demonstrates that leverage and earnings management practices significantly influence the disclosure of SR among SOEs in Indonesia, while institutional ownership, profitability, and firm size do not exhibit consistent effects. The findings suggest that SR is often utilized as a symbolic tool to respond to external pressures or to obscure opportunistic managerial behavior, rather than serving purely as a genuine representation of financial accountability or sustainability commitment. Additional analysis based on industry classification reveals that high-profile firms are driven to disclose sustainability information due to external pressures. Meanwhile, internal factors such as strategic managerial decisions and institutional shareholding play a more significant role in shaping the behavior of low-profile firms.

In summary, this research highlights that sustainability practices within SOEs are not yet deeply rooted in intrinsic values, but rather remain largely shaped by legitimacy motives and strategic environmental pressures. These results also emphasize the complex interaction of external legitimacy demands and internal governance mechanisms, offering an essential lens for regulators to reassess whether current sustainability frameworks effectively encourage substantive, rather than symbolic, reporting practices.

These implications are critical for regulators and stakeholders to reconsider the current sustainability policy approach in the public sector. Future research could expand the scope to include non-SOEs or cross-country comparisons to enhance external validity. Incorporating qualitative approaches, such as content analysis of sustainability reports or interviews with key stakeholders, may provide deeper insights into the motivations behind disclosure. Additionally, examining the moderating role of regulatory strength or industry characteristics could reveal more nuanced relationships between financial, governance factors, and sustainability reporting

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