

Materiality Matters: Corporate Determinants of Disclosure in Sustainability Reports

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Abstract: This study aims to provide empirical evidence of the impact of financial performance, leverage, and business size on materiality disclosure in sustainability reports by classifying the sample as environmentally sensitive or non-sensitive. This research is a quantitative exploratory study. This study used purposive sampling with various criteria, yielding 66 companies and 264 observational data points. The data was analyzed using multigroup panel regression. The study's findings show that financial success positively affects materiality disclosure in sustainability reports in sensitive businesses but has no effect in non-sensitive companies. Leverage does not affect materiality disclosure in sustainability reports in sensitive organizations; nevertheless, it has a beneficial effect in non-sensitive enterprises. Both sensitive and non-sensitive company sizes have a detrimental impact on materiality disclosure in sustainability reports. With the lack of go-public companies that consistently publish sustainability reports, this research has implications for go-public companies to consistently publish sustainability reports every year and pay more attention to materiality aspects in making them.

Keywords: Sustainability Report; Financial Performance; Leverage; Company Size

Abstrak: Penelitian ini bertujuan untuk memberikan bukti empiris mengenai dampak kinerja keuangan, leverage, dan ukuran perusahaan terhadap pengungkapan materialitas dalam laporan keberlanjutan dengan mengklasifikasikan sampel menjadi perusahaan yang sensitif atau tidak sensitif terhadap lingkungan. Penelitian ini merupakan penelitian eksploratif kuantitatif. Penelitian ini menggunakan purposive sampling dengan berbagai kriteria, menghasilkan 66 perusahaan dan 264 titik data observasi. Data dianalisis dengan menggunakan regresi panel multigroup. Temuan penelitian menunjukkan bahwa keberhasilan keuangan berpengaruh positif terhadap pengungkapan materialitas dalam laporan keberlanjutan pada bisnis yang sensitif tetapi tidak berpengaruh pada perusahaan yang tidak sensitif. Leverage tidak mempengaruhi pengungkapan materialitas dalam laporan keberlanjutan pada perusahaan yang sensitif, namun memiliki efek yang menguntungkan pada perusahaan yang tidak sensitif, ukuran perusahaan baik perusahaan sensitif maupun tidak sensitif memiliki dampak yang merugikan terhadap pengungkapan materialitas dalam laporan keberlanjutan. Dengan minimnya perusahaan go public yang konsisten menerbitkan sustainability report maka Penelitian ini berimplikasi agar perusahaan go

public secara konsisten menerbitkan sustainability report tiap tahunnya serta lebih memperhatikan aspek materialitas dalam pembuatannya.

Kata kunci: *Sustainability Report; Kinerja Keuangan; Leverage; Ukuran perusahaan*

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INTRODUCTION

Companies must adapt to the changing times and the needs of their stakeholders in order to survive. Companies are being asked to achieve sustainable development per the global market's needs while paying attention to future generations (Ariyani et al., 2018). The disclosure of sustainability information serves several purposes, including improving the Company's reputation and legitimacy, facilitating the control and information process, increasing transparency and stakeholder accountability, and demonstrating the Company's competitiveness (Ngu & Amran, 2021). In July 2018, the Financial Services Authority (OJK) released POJK Number 51/POJK.03/2017, which outlines the implementation of sustainable financing for financial institutions, issuers, and public organizations. POJK 51/2017 aims to raise awareness and commitment to the implementation of sustainability principles, as well as to create sustainable financial products.

Following this law, companies listed on the IDX must issue a sustainability report (SR) beginning in 2020. However, the COVID-19 epidemic has postponed the implementation of this legislation until 2021, increasing the number of enterprises issuing SRs annually. In 2021, 77% of Indonesian listed businesses submitted SRs; by 2022, around 88% of listed companies had issued SRs. This problem demonstrates that entities are not fully complying with the SR reporting duty; more than 15% of corporations listed on the IDX have yet to issue SR. SR reporting principles reference the Global Reporting Initiative (GRI) to produce high-quality sustainability reports. Materiality is one of the GRI principles that continues to be contested in the industry (Putri et al., 2022). Materiality is a relatively recent notion for sustainability reporting that focuses on key aspects of decision-making (Lubinger et al., 2019). According to stakeholder theory, materiality is the foundation for reporting relevant topics. Stakeholders want companies to be able to explain their materiality assessments in depth (Beske et al., 2020).

Stakeholder theory highlights the importance of materiality information in sustainability reports for the Company's stakeholders. According to Freeman & McVea (2005), organizations are responsible for internal and external stakeholders. Internal stakeholders include firm executives, whereas external stakeholders include investors, creditors, customers, suppliers, and the government. As a result, businesses must perform extensive research when generating sustainability reports to inform their stakeholders better (Slacik & Greiling, 2020). At this level, materiality is a critical analysis that organizations must conduct since it can inform the Company's sustainability report approach (Jørgensen et al., 2022).

Previous research on sustainability reports has been undertaken. However, these studies are more concerned with the factors that influence the disclosure of sustainability reports than with materiality. Research on sustainability reports

focusing on materiality analysis still needs to be improved, with conflicting results and many conducted outside. As a result, academics are interested in re-testing the factors that influence materiality disclosure in sustainability reports. Financial performance, leverage, and company size were chosen as factors for this study since various researchers stated that these three variables have been widely employed in prior studies with conflicting results (Hahn & Kühnen, 2013). This study differs from prior studies, including multigroup testing to examine differences in materiality level disclosure in environmentally sensitive businesses versus non-sensitive enterprises. In their research, Haniffa & Cooke (2005) and Hassan & Ibrahim (2012) argue that the Company's industry type is a predictor of the quality of the Company's sustainability report, so it is better. This research aims to assess the impact of financial performance, leverage, and company size on materiality disclosure in sustainability reports in environmentally sensitive industries and non-sensitive enterprises.

LITERATURE REVIEW

This research stakeholder theory is used, Stockholders, creditors, employees, customers, suppliers, public interest groups, and governmental agencies are all examples of stakeholders, according to Freeman & McVea (2005). Stakeholder theory is one of the primary ideas used to connect the factors influencing materiality disclosure in sustainability reports (Buallay, 2020). This idea explains that stakeholder advocacy is critical for long-term business continuity. Thus, organizations must incorporate sustainability into their business plans to meet varied interests (Farooq et al., 2021). According to Stakeholder theory, sustainability reports should address material challenges that may influence stakeholder perceptions (Freman, 1984). According to (Beske et al., 2020), managers must acknowledge the relevance of sharing materiality assessments; failing to do so influences the credibility of the information supplied by stakeholder needs. Gerwanski et al. (2019) found that materiality disclosure quality is positively associated with learning effects, gender diversity, and the assurance of nonfinancial information in the integrated report.

Materiality is a key term in accounting; accountants use it to prepare financial statements and conduct audits (Fasan & Mio, 2017). The audit industry even uses materiality to determine the impropriety of financial statement presentation. Something is considered material when it is purposely misrepresented by an individual or organization to influence other parties' actions (PSAK, 2024). Materiality analysis is how firms identify and prioritize relevant features and issues to include in sustainability reports (Beske et al., 2020; Aifuwa, 2020). In the context of sustainability, materiality refers to subjects that reflect the importance of economic, social, and environmental repercussions on the organization, stakeholders, and society as a whole, as well as the impact of sustainability on stakeholder decisions (GRI, 2013). Materiality in different businesses may have diverse consequences (Amidjaya & Widagdo, 2020). Environmentally conscious companies, such as those in the manufacturing, chemicals, construction, real estate, plantation, and energy industries, are classified as sensitive sectors. Financial services, hotels, healthcare, information technology, commerce, and other sectors are classified as non-sensitive (Shamil et al., 2014).

Impact of Financial Performance on Materiality Disclosure

Financial performance is a company's achievement over a specific period that describes its level of excellence (Ratih & Setyarini, 2014). The Company must capitalize on its strengths while constantly improving its deficiencies. Investors can see the Company's performance by studying its financial accounts (Wiharno et al., 2024). Various techniques for measuring financial performance include profitability ratios such as Return on Asset (ROA) and Return on Equity (ROE).

Previous research on materiality in sustainability reports discovered that one of the elements influencing materiality disclosure is financial performance. According to stakeholder theory, a company's financial success indicates its health (safitri & Saifudin, 2019). Good financial performance increases stakeholder trust, whereas good financial performance encourages corporations to make more significant sustainability disclosures. Farooq et al. (2021) and Putri et al. (2022) found that financial performance, as evaluated by the profitability ratio, influences materiality disclosure in sustainability reports. In contrast, Ngu and Amran. (2021) research cannot demonstrate the relationship between financial performance and materiality disclosure in sustainability reports. Environmentally sensitive companies pay more attention to environmental issues than other companies since their primary activities are closely tied to the environment (Torelli et al., 2020). This outcome is quite different from companies that are not environmentally conscious. According to Torelli et al. (2020), environmentally insensitive enterprises are not required to prioritize environmental concerns in their commercial operations. As a result, the hypotheses for this investigation are stated below.

H1a: Financial performance significantly positively affects materiality disclosure in sustainability reports in environmentally sensitive companies.

H1b: Financial performance does not significantly affect materiality disclosure in sustainability reports in environmentally insensitive companies.

The Effect of Leverage on Materiality Disclosure

The leverage ratio reflects how much debt the Company has (Damayanti & Hardiningsih, 2021). Meanwhile, the leverage ratio refers to the proportion of a company's externally funded assets. Leverage provides operational help for businesses, particularly those with financial resources. Companies with more debt suffer tremendous pressure from stakeholders since they need help to repay their loans quickly (Ngu & Amran, 2021). Putri et al. (2022) found that enterprises with high debt levels disclose more voluntary information to creditors, including information on sustainability reports. Creditors' faith in lending funds to the Company will be increased further if nonfinancial information is willingly supplied.

Companies with high debt in their operations will be more willing to share voluntary information. Companies with significant leverage must demonstrate compliance with debt covenants and will do so by giving additional information (Limet et al., 2020). (Putri et al. (2022) discovered a favorable correlation between leverage and materiality disclosure in sustainability reports. In contrast, some research indicated a negative link between leverage and materiality disclosure in sustainability reports (Farooq et al., 2021; Ngu & Amran, 2021). Environmentally conscious businesses bear greater responsibility for managing their operations, including maintaining debt levels and using debt that does not harm the environment (Torelli et al., 2020). This outcome differs from companies that are not

environmentally conscious. Environmentally insensitive corporations prioritize sustaining debt contracts, lowering debt ratios, and expanding debt funding over environmental challenges (Sepúlveda-Alzate et al., 2021; Torelli et al., 2020). As a result, the hypothesis for this investigation is stated below.

H2a: Leverage significantly positively affects materiality disclosure in sustainability reports in environmentally sensitive companies.

H2b: Leverage does not significantly affect materiality disclosure in sustainability reports in environmentally insensitive companies.

The Impact of Company Size on Materiality Disclosure.

Several studies have considered firm size, which is supposed to influence economic decisions. Furthermore, firm size is frequently used to explain the diversity in the amount of disclosure in corporate reports. Larger organizations typically disclose more information than smaller ones (Usman, 2020). According to Putri et al. (2022), the study's findings indicate that larger organizations will give more information to the public than smaller companies. Large corporations with sufficient profits have a larger budget for disclosing financial information to the public, including annual and sustainability reports.

Large corporate sizes are likely to induce greater material disclosure of sustainability reports. According to stakeholder theory, the larger the Company, the more interested parties it attracts. Several studies support this, including one by Putri et al. (2022), which argues that corporate size favors materiality disclosure in sustainability reports. In contrast, Ngu & Amran (2021) and Farooq et al. (2021) found that firm size does not affect the publication of materiality information in sustainability reports. These findings differ between environmentally sensitive and non-sensitive enterprises. Large enterprises operating in ecologically sensitive industries owe a more significant commitment to society to demonstrate that their goal of increasing corporate size will not jeopardize environmental and societal sustainability (Torelli et al., 2020). This outcome differs from companies that are not environmentally conscious. Companies that are not environmentally sensitive have no direct impact on the environment. Hence, the duty to report sustainability is a type of environmental awareness for the Company (Sepulveda-Alzate et al., 2021). As a result, the hypothesis for this investigation is stated below.

H3a: Company size significantly positively affects materiality disclosure in sustainability reports in environmentally sensitive companies.

H3b: Company size has no significant effect on materiality disclosure in sustainability reports in environmentally sensitive companies.

RESEARCH METHOD

This form of research is quantitative and explanatory. This research uses a multigroup panel data regression equation; this study examines the impact of independent variables such as financial performance, leverage, and firm size on the dependent variable of materiality disclosure in the Company's sustainability report. This study used panel data regression because the research was conducted over four years on several organizations. The panel data regression technique can analyze cross-sectional and time series data (Gujarati & Porter, 2015). Furthermore, this study did a multigroup analysis to investigate the variations in predictors of materiality disclosure in sustainability reports in sensitive and insensitive businesses

to environmental consequences (Shamil et al., 2014). The population considered in this study included all go-public businesses listed on the Indonesia Stock Exchange that published a Sustainability Report for 2020-2023. The sampling technique used in this study was purposive sampling, as shown in Table 1.

Table 1. Sample Distribution

No	Sample criteria	Observation Data
1	Companies listed on the IDX 2020-2023	903
2	Companies that publish their Financial Report & Sustainability Report for 2020-2023	806
3	Companies that consistently issue SR and AR in 2020-2023	97
4	A company that is consistently profitable in 2020-2023	66
Total Sample: 66 companies x 4 (number of years of observation)		264

Source: Data Processed (2024)

Farooq et al. (2021) established a method for measuring materiality disclosure in sustainability reports. Farooq et al. (2021) created a materiality disclosure measurement approach that includes six items. First, if no reference is made to the materiality evaluation, the corporation will be classified as 0. Second, if the reporter claims to have undertaken a materiality evaluation but does not offer details on the processes taken, the story will be classified as 1. Third, limited information is supplied on the materiality evaluation stages, but no materiality matrix is provided, classified as 2. Fourth, limited information is supplied on the materiality evaluation stages, and a materiality matrix is provided, classified as 3. Fifth, thorough disclosure is provided on the materiality evaluation procedures; nevertheless, no materiality matrix is supplied. Hence, it is classified as 4. Sixth, thorough disclosure of the materiality evaluation methods and a materiality matrix (category 5) are provided. Pengukuran kinerja keuangan dalam penelitian ini menggunakan rasio profitabilitas.

In this study, financial performance is measured using profitability ratios. The profitability ratio utilized is Return on Asset (ROA). ROA is a statistic that measures the return on total assets a corporation uses. The following is the ROA calculation formula (Buallay, 2020).

$$\text{Return on Assets} = \frac{\text{Net Income After Tax and Interest}}{\text{Total Asset}} \quad \dots (1)$$

The leverage ratio, often the solvency ratio, measures a company's ability to finance debt. This study measures leverage using the Debt to Equity Ratio (DER), which compares debt and equity. The following is the DER calculation formula (Nguyen, 2020).

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}} \quad \dots (2)$$

Firm size is a metric that reflects how large a firm is. Company size is a scale used to categorize the size of an entity. This study calculates firm size (Size) using the total natural logarithm (Dang et al., 2018).

$$Size = Ln (Total Assets) \dots (3)$$

This study uses multigroup panel data, which has been categorized by company type. Environmentally aware companies are labeled Company 1, while those that are not are labeled Company 0.

RESULT AND DISCUSSION

In sustainability reports, descriptive statistical tests are used to produce results or descriptions of data, such as the minimum, maximum, average, and standard deviation of financial performance factors, leverage, firm size, and materiality. The descriptive statistical analysis in this study distinguishes between sensitive and non-sensitive companies. Based on the descriptive statistics in Table 2, the materiality value in the sustainability report is 3.108696, indicating that sensitive companies disclosing sustainability reports in terms of material aspects have an average value of 3 out of a value range of 0 to 5. The average leverage of sensitive enterprises is 0.978089, indicating that 97.8% of the Company's assets are funded by outsiders or through debt. Financial performance has an average value of 0.095595, indicating that the percentage or comparison of the Company's net profit to its total assets is 9.56%. The average size of the firm's assets in the sensitive firm category is Rp. 38,102,690,874,148, as shown in the Table 3.

Table 2. Descriptive statistical results of sensitive companies (Trillion)

	KK (Financial Performance)	LV (Leverage)	UP (Size Company)	M (materialities SR)
Mean	0.096	0.978	38.103	3.109
Median	0.064	0.578	19.831	3.000
Maximum	1.100	6.052	445.679	5.000
Minimum	0.001	0.023	0.317	0.000
Std.Dev.	0.144	1.079	629	1.496
Skewness	4.887	2.289	4.191	-0.274
Kurtosis	30.252	8.695	23.951	2.116
Jarque-Bera	6426.276	409.374	3903.881	8.295
Probability	0.000	0.000	0.000	0.0158
Sum	17.589	179.968	7.011	572.000
Sum Sq. Dev.	3,783	213.221	7.25	409.826
Observations	184	184	184	184

Source: Data Processed (2024)

Based on the descriptive statistics in Table 3, it is determined that the value of materiality in the sustainability report is 2.512500, indicating that the Company is not sensitive in disclosing sustainability reports in terms of material aspects, with an average value of 2.5 from a value range of 0 to 5. The average leverage number for sensitive companies is 5.018969, which suggests that 501.9% of the Company's

assets are funded by outsiders or through debt. Financial performance has an average value of 0.016665, indicating that the percentage or comparison of the Company's net profit to its total assets is 1.7%. The Company's size in the table above has an average value of 399,204,561,966,650, implying that the average size of the Company's assets as a whole in the sensitive firm's category is Rp.399,204,561,966,650.

Table 3. Descriptive statistical results Insensitive companies

	KK (Financial Performance)	LV (Leverage)	UP (Size Company)	M (Materials SR)
Mean	0.017	5.019	399.205	2.513
Median	0.014	4.762	399.205	2.000
Maximum	0.048	16.079	2.174.219	5.000
Minimum	0.003	0.352	0.822	0.000
Std.Dev.	0.010	3.259	561.403	1.607
Skewness	1.075	1.282	1.734	0.051
Kurtosis	3.883	4.867	4.810	2.092
Jarque-bera	18.018	33.535	51.025	2.785
Probability	0.000	0.000	0.000	0.249
Sum	1.333	401.517	3,194	201.000
Sum Sq. Dev.	0.007	838.906	2,490	203.988
Observations	80	80	80	80

Source: Data Processed (2024)

Table 4. Multicollinearity Test Results

Independent Variable	Company is not Sensitive (0)	Sensitive Company (1)
Financial Performance	1,380	1,051
Leverage	1,378	1,066
Company Size	1,142	1,016

Source: Data Processed (2024)

Table 5. Heteroscedasticity Test Results

Model	Obs*R-squared	Prob. Chi-Square
Company is not Sensitive (0)	3,279	0,350
Sensitive Company (1)	4,449	0,216

Source: Data Processed (2024)

The standard assumption tests employed in this work are the multicollinearity and heteroscedasticity tests. The multicollinearity test determines whether the regression model detects a correlation between independent variables (Gujarati, 2021). A decent regression model should not have a strong connection between its independent variables. The Variance Inflation Factor (VIF) is one way to

determine whether or not multicollinearity exists. Multicollinearity is indicated by a VIF number greater than 10, while a VIF value less than 10 indicates the absence of multicollinearity. Table 4 displays the results of multicollinearity tests, which reveal that the VIF value is < 10 , indicating that the data in the study is free of multicollinearity concerns (Sekaran & Bougie, 2017). The heteroscedasticity test examines if there is an inequality in the variance of residuals from one observation to the next in a regression model (Table 5).

Table 6 shows that the Chi-square probability value for insensitive and sensitive companies exceeds the research error degree (0.05). The findings of this test show that there is no tendency for heteroscedasticity in the research dataset. To reject the aforementioned hypothesis, compare the p-value calculation on the chi-square statistic to alpha (5%). If the p-value is less than 5%, H0 is rejected, indicating that the Fixed Effect Model is the best fit. If the p-value exceeds alpha (5%), H0 is accepted, and the Common Effect Model is applied (Widarjono, 2009).

Table 7 showed that the p-value of 0.0000 was less than alpha (5%) in non-sensitive and sensitive companies. Hence, H1 was accepted, and the fixed effect model was chosen as the best model for this research instance. The Hausman test is then used to determine whether the Fixed Effect or Random Effect model is the best fit. The Hausman statistical test determines whether to apply the Fixed Effect or Random Effect model (Widarjono, 2009). The statistical test value for the panel regression model on Non-Sensitive Companies is 6.986, with a probability value 0.072. This result reveals that the probability value exceeds alpha (0.05). Hence, H0 is accepted, indicating that the model utilized is a random effect model. Meanwhile, the panel regression model for Sensitive Companies yields a statistical chi-square value of 12.774 and a probability value of 0.005. The probability value is less than alpha (0.05), indicating rejection of H0 and the use of the *fixed effect model*.

Table 6. Chow Test Results

Model	Cross-section Chi-square	Prob. Chi-Square
Company is not Sensitive (0)	121,204	0,000
Sensitive Company (1)	450,833	0,000

Source: Data Processed (2024)

Table 7. Hausman Test Results

Model	Chi-square Statistics	Probability
Company is not Sensitive (0)	6,986	0,072
Sensitive Company (1)	12,774	0,005

Source: Data Processed (2024)

Table 8. F Test Results for Simultaneous Effects of Independent Variables

Model	F-Statistics	Probability
Company is not Sensitive (0)	13,448	0,000
Sensitive Company (1)	2,361	0,071

Source: Data Processed (2024)

Table 9. Coefficient of determination (R2) Panel Regression Model

Model	R-Square	Adj. R-Square
Company is not Sensitive (0)	0,838	0,776
Sensitive Company (1)	0,026	0,015

Source: Data Processed (2024)

Table 10. Partial Influence of Independent Variables

Independent Variable	Company is not Sensitive (0)	Sensitive Company (1)
Financial Performance	-19,843 (p = 0,311)	4,860 (0,000)
Leverage	0,126 (p = 0,029)	-0,022 (0,808)
Company Size	1,07 x 10 ⁻¹⁵ (p = 0,000)	-7,20 x 10 ⁻¹⁵ (0,446)

Source: Data Processed (2024)

Furthermore, simultaneous testing is performed to see whether all of the variables in the regression model have a significant effect on Y. All of these variables are examined concurrently using the F test. Table 8 shows that the P-value (probability) of 0.000 among non-sensitive organizations is less than 0.05. This result suggests that Financial Performance, Leverage, and Company Size variables significantly impact materiality disclosure. Meanwhile, in sensitive companies, the P-value (prob) of 0.0718 is more significant than 0.05. This result suggests that the variables of Financial Performance, Leverage, and Company Size have no meaningful impact on materiality disclosure.

The coefficient of determination (R²) is then calculated, which measures the correctness or suitability of the regression line derived from the example-based parameter estimation. Furthermore, the coefficient of determination can be used to determine how much of the overall variance around the mean can be explained by the regression line. Table 9 displays the coefficients of determination for the Company and the Insensitive Company. The size of the independent variables' simultaneous contribution to the dependent variable in the Non-Sensitive Company (0) using the random effect model, as calculated in Table 9, with a coefficient of determination (R Square) of 0.838. These findings indicate that the contribution of firm performance, leverage, and company size in the regression equation to materiality disclosure is 83.84%, with the remaining 16.15% supplied by variables not included.

Meanwhile, the Sensitive Company (1) employs a fixed effect model based on the calculation results in Table 9 and a coefficient of determination (R Square) of 0.026. These findings indicate that the contribution of firm performance, leverage, and company size in the regression equation to the dependent materiality disclosure is 2.65%, with the remaining 97.35% contributed by variables not included in the equation. After determining that the model utilized is a fixed effect model for sensitive organizations and a random effect model for non-sensitive companies, a t-test is performed to determine the significance of the relationship between the independent and dependent variables. The t-test is used to estimate the influence of the independent variable on the dependent variable. The significant value in Table 10 shows the results of this test.

Discussion

Financial Performance on Materiality in Sustainability Reports in Environmentally Sensitive Companies

The coefficient describing the effect of sensitive companies' financial performance on materiality disclosure is 4.860. The positive correlation shows that if the value of financial performance grows, materiality reporting in sensitive organizations will improve, and vice versa. The significance value of 0.000 is less than alpha (0.05), implying that the beneficial effect on sensitive companies is statistically supported. These findings are consistent with the studies of Farooq et al. (2021) and Putri et al. (2022), who found that financial performance, as evaluated by the profitability ratio, influences materiality disclosure in sustainability reports. This finding is also consistent with stakeholder theory, which states that a corporation can be considered healthy if it has strong financial performance. Good financial performance increases stakeholder trust, while good financial performance motivates corporations to make more material sustainability disclosures.

Financial Performance on Materiality in Sustainability Reports in Non-Environmentally Sensitive Companies

The coefficient of the effect of insensitive organizations' financial performance on materiality disclosure is -19.843. A negative coefficient shows that as the value of financial performance increases, materiality reporting deteriorates, and vice versa. The significance level of 0.311 is more significant than alpha (0.05), implying that financial performance does not affect materiality disclosure in environmentally insensitive enterprises. These findings align with those of Sepúlveda-Alzate et al. (2021), that financial success does not affect the materiality level disclosed in sustainability reports of non-environmentally sensitive enterprises. These findings suggest that in organizations that are not environmentally sensitive, stakeholders do not view environmental issues as a substantial obligation. Hence, stakeholders do not agree to reveal materiality in sustainability reports (Torelli et al., 2020). This finding contradicts stakeholder theory, which states that when a company's financial performance is strong, investors consider it healthy.

Leverage on Materiality in Sustainability Reports in Environmentally Sensitive Companies

The coefficient of leverage effect on materiality disclosure in sensitive companies is -0.022. The negative coefficient implies that materiality reporting in sensitive companies deteriorates as leverage value grows. The significance level of 0.808 is higher than the alpha (0.05), implying that the detrimental impact on sensitive companies is not statistically verified. The findings of this study contradict Putri et al. (2022), who discovered a positive relationship between leverage and materiality disclosure in sustainability reports. In contrast, some research indicated a negative link between leverage and materiality disclosure in sustainability reports (Farooq et al., 2021; Ngu & Amran, 2021). This result contradicts Stakeholder Theory, which holds that sustainability reports are created as a form of accountability to stakeholders, including creditors. Companies with increasing leverage will release more detailed reports that meet stakeholders' interests, particularly creditors.

Leverage on Materiality in Sustainability Reports in Environmentally Sensitive Companies

The coefficient of leverage effect on materiality disclosure in non-sensitive enterprises is 0.126. A positive coefficient suggests that as leverage value increases, materiality reporting improves, and vice versa. The significance level of 0.029 is less than alpha (0.05), indicating that the favorable effect of leverage on materiality disclosure is statistically significant. This finding is consistent with Putri et al. (2022), who discovered a positive relationship between leverage and materiality disclosure in sustainability reports. In contrast, previous research has identified a negative association between leverage and materiality disclosure in sustainability reports (Farooq et al., 2021; Ngu & Amran, 2021). According to stakeholder theory, sustainability reports are created as a means of accountability to stakeholders, including creditors. Companies with increasing leverage will release more detailed reports that meet stakeholders' interests, particularly creditors.

Company Size on Materiality in Sustainability Reports in Non-Environmentally Sensitive Companies.

The coefficient of the effect of company size on materiality disclosure in sensitive companies is -7.20×10^{-15} . The negative coefficient implies that the larger the Company, the poorer the materiality reporting in sensitive companies, and vice versa. The significance level of 0.446 is higher than the alpha (0.05), implying that the detrimental impact on sensitive companies is not statistically verified. This study is consistent with Ngu & Amran (2021) and Farooq et al. (2021) findings that firm size does not affect the disclosure of materiality data in sustainability reports. This conclusion is inversely related to the stakeholder theory, which states that the larger the Company, the more interested parties are in it, so the revealed sustainability report will be more substantive.

Company Size on Materiality in Sustainability Reports in Non-Environmentally Sensitive Companies.

The coefficient for the effect of firm size on materiality disclosure in non-sensitive enterprises is 1.07×10^{-15} ; the positive coefficient suggests that the larger the Company, the better the materiality reporting, and vice versa. The significance value of 0.000 is less than alpha (0.05), implying that the negative influence of firm size on materiality disclosure is significant. The findings of this study are consistent with Putri et al. (2022) research, which found that firm size has a favorable influence on materiality disclosure in sustainability reports. The study's findings contradict those of (Ngu and Amran (2021) and (Farooq et al. (2021), who found that firm size does not influence the disclosure of material information in sustainability reports. This conclusion is inversely proportional to stakeholder theory, which states that the larger the Company, the more interested parties are in it, implying that materiality disclosure in sustainability reports is becoming increasingly relevant, particularly in sectors with little direct environmental impact.

To What Extent Company Type Affects Materiality in Sustainability Reports

The statistical results of data from 66 companies as a sample in the study it can illustrate that the type of Company can have a significant effect on the disclosure of materiality in sustainability reports, meaning that companies that have a greater

effect on the environment will pay more attention to making reports so that the quality of the sustainability reports they make is more material. Given that companies with significant environmental effects will have higher pressure from stakeholders, regulators, and society. So that companies will be encouraged to be more open. One way the Company discloses financial reports and nonfinancial reports is in more material sustainability reports.

CONCLUSION

The results showed that financial performance in insensitive companies does not influence increasing the materiality disclosed in the sustainability report. In contrast, it positively influences sensitive companies, implying that the better the Company's financial performance, the more likely it is to disclose materiality in its sustainability report. Leverage has no positive effect on materiality disclosure in sensitive organizations. However, it does in non-sensitive companies, which means that the higher the leverage, the better the materiality disclosure, and vice versa. Company size hurts both sensitive and insensitive companies, implying that the larger the Company, the worse the materiality disclosure is given. Because few go-public companies consistently publish sustainability reports, this research has implications for the obligation of go-public companies to publish sustainability reports yearly because nonfinancial information in sustainable reports can help stakeholders make decisions and improve the quality of reporting carried out by companies. Stakeholders, particularly investors, can evaluate sustainability reports to assess the Company's economic, social, and environmental performance, allowing investors to make informed investment decisions. Suggestions for future research include examining the extent to which companies in Indonesia use materiality aspects in sustainability reports and adding new variables outside of this study to discover more factors that influence materiality disclosure in sustainability reports. One of these elements is financial stress. Companies in financial difficulty will make rigorous financial arrangements. Thus, they will likely ignore nonfinancial information that has no direct impact on the Company's financial results.

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