

# Determination of Materiality Disclosure in Sustainability Reports

Anisa Firnanda<sup>1</sup>, Farida<sup>1\*</sup>, Anissa Hakim Purwantini<sup>1</sup>, and Wawan Sadtyo Nugroho<sup>1</sup>

<sup>1</sup>Universitas Muhammadiyah Magelang, Magelang, Indonesia

**Abstract.** The concept of materiality is an important concept in accounting practice, particularly in measuring and reporting corporate sustainability performance. The concept of materiality is a tool for revealing material aspects so that sustainability reports are more relevant to stakeholders. This study aims to provide empirical evidence and analyze the influence of financial performance, company size, and industry on materiality disclosure in sustainability reports. The research population consists of companies listed on the Indonesia Stock Exchange for the period 2020-2023. The sampling method applied in this study was purposive sampling, resulting in a final sample of 32 companies. With four observation periods, the total number of observations amounted to 128. The data was processed using SmartPLS. The analysis results show that financial performance and company size do not affect materiality disclosure. The industry sector has a negative impact on materiality disclosure in sustainability reports. The implication of this study is that companies can improve their policies on the quality of materiality disclosure in sustainability reports, thereby enhancing corporate sustainability and increasing the role of the government through regulations (legislation) in optimizing the realization of sustainable development.

## 1 Introduction

The concept of materiality is very important in accounting because it covers all elements and processes, especially information to support appropriate economic decision-making. This concept of materiality is outlined in sustainability reports, where materiality is one of the four principles of sustainability reports, namely stakeholder inclusiveness, sustainability context, materiality, and completeness. The principle of materiality covers economic, social, and environmental information that has been carried out by the company that is beneficial to stakeholders [1]. Materiality provides complete information in sustainability reports, so that the information is relevant to stakeholders, especially the capital market, and has an impact on low capital costs [2].

Company materiality levels are listed in sustainability reports. There is a contradiction between companies' sustainability commitments and their implementation, as in the case of PT Antam Tbk (ANTAM). The company divides its material focus into three main points:

---

\*Corresponding author: [farida\\_feb@unimma.ac.id](mailto:farida_feb@unimma.ac.id)

economic performance, environmental impact, and employment aspects. However, in 2022, ANTAM was involved in pollution and environmental damage in the Mandiodo Block area, Southeast Sulawesi Province [3]. Ironically, pollution prevention is one of the material topics recognized in ANTAM's sustainability report, which should serve as a guideline for environmental risk mitigation and decision-making.

A similar inconsistency also occurred at PT Unilever Indonesia. Although its sustainability report emphasized employee safety and welfare as essential material topics, the company was found to have unilaterally terminated the employment of 161 employees in 2022 [4]. This policy indicates a violation of the company's social responsibility regarding the fulfilment of workers' rights and welfare. **Table 1** shows that, year after year, companies are becoming more concerned with governance in addition to financial aspects, particularly Environmental, Social, and Governance (ESG) in the Indonesian capital market. Furthermore, although there has been an increase in the number of companies disclosing sustainability reports, not all companies have implemented ESG and are still focused solely on financial aspects.

**Table 1.** Comparison of corporate sustainability report disclosure

No	Years	Amount of Disclosure Sustainability Report	Number of Companies on the IDX	Percentage
1	2018	59	619	9.53%
2	2019	93	668	13.9%
3	2020	139	713	19.49%
4	2021	154	766	20.10%
5	2022	505	787	64.17%
6	2023	724	903	80.18%
7	2024	873	941	92.77%

Source: Indonesia Stock Exchange, 2024

The implementation of sustainable finance is regulated in Indonesian Financial Services Authority, POJK 51 - Sustainable Finance. The purpose of the regulation is to increase companies' commitment to the implementation and development of sustainable financial products to support sustainable growth and low-carbon economic development [5]. There are several factors in the implementation of materiality listed in sustainability reports, namely financial performance, leverage, and company size. Profitability and leverage ratios, as indicators of financial performance, affect sustainability reporting practices because companies incur costs related to social and environmental responsibility disclosures. Research by [6] and [7] states that profitability and leverage can increase materiality disclosure. In contrast [7] found that high leverage and profitability actually reduce materiality disclosure. The results of the research from [8] stated that financial indicators do not have a strong influence on sustainability and materiality disclosure.

The next aspect is company size. Company size is one indicator of a company's wealth based on its total assets [9]. Business legitimacy costs will increase as the company size increases [10]. Research results from [7] explains that company size can encourage materiality disclosure, and [8] states that company size has an impact on sustainability strategies. In contrast to [9], where company size does not affect sustainability report disclosure, dan [7], [6] found that the larger the company size, the lower the materiality disclosure.

The implementation of business activities relies on the type of industry that characterizes the company. Differences in industry types have diverse potential in providing policies in the field of environmental impact. According to research [11] describe that industry type can increase corporate social responsibility disclosure, and [8] explain that industry type can have an effect on corporate sustainability [7] show that industry type reduces the level of

materiality disclosure in sustainability reports, while [12] state that industry type does not affect sustainability report disclosure. This study builds on [13] by adding the variable of industry type, as done by [8], [7] and [11]. Thus, this study aims to analyze the aspects that impact materiality in sustainability disclosure. To support this research objective, the study uses secondary data on companies that consistently publish annual reports and sustainability reports, which are then analyzed using Partial Least Square (PLS).

## **2 Literature Review**

### **2.1 Stakeholder Theory**

Stakeholder theory shows that companies operate optimally because of the support of stakeholders, so they must maintain good relationships with them. One way to maintain good relationships with stakeholders is to publish a sustainability report. Sustainability reports contain material information related to the company's economic, environmental, and social conditions as a basis for decision-making. It is hoped that stakeholders will benefit in achieving sustainable development goals through sustainability reports that detail these issues.

### **2.2 Legitimacy Theory**

According to legitimacy theory, organizations endeavor to ensure that their activities conform to societal expectations in order to secure legitimacy and continued acceptance from stakeholders. Sustainability reports serve as a tool for companies to respond to the demands and expectations of their social environment. These reports are not merely documentation, but serve to validate the company's activities and actions. By publishing these reports, companies demonstrate that their business operations are conducted responsibly, thereby gaining the trust and ongoing support of the public.

### **2.3 Materiality Disclosure**

Materiality refers to the degree to which inaccuracies in accounting information could potentially affect or alter the decisions made by users of that information. To determine whether information is considered material, the amount of data presented in the financial statements must be evaluated by considering the context underlying the information and referring to the monetary amounts stated in the financial statements. Materiality is a key point in disclosure and a guideline for making investment decisions [14]. Materiality disclosure is measured using a method developed by [15].

### **2.4 Sustainability Report**

A sustainability report is a report that provides disclosures on an organization's economic, social, and environmental activities and impacts. Through its description of the impact of activities, a sustainability report becomes an assessment tool for measuring the capacity to respond to and resolve issues related to sustainability [8].

## 2.5 Financial Performance

Financial performance is an assessment of a company's activities in utilizing its resources, particularly financial resources, which have been carried out well. The study uses profitability and leverage ratios. Profitability is measured by Return on Assets (ROA), leverage by Debt to Assets Ratio (DER) and company size Ln (Total Assets) [11].

## 2.6 Industry

The industry type of a company is one of the determinants used to explain the disclosure of non-financial information in previous studies [7]. Industries are divided into two categories: high-profile (high sensitivity, political risk, and competition, resulting in significant public attention) and low-profile (low sensitivity, political risk, and competition, resulting in less public attention). The measurement uses dummy variables (1 or 0), namely value 1 (Environmentally Sensitive): Construction and real estate, plantations, industrial products, property, infrastructure projects, and consumer products; and Value 0 (Not Environmentally Sensitive): Hotels, technology, finance, and trade services.

## 3 Method

The sampling technique employed in this study was purposive sampling. The sample criteria included companies listed on the Bursa Efek Indonesia during the 2020–2023 period that consistently published both annual reports and sustainability reports and did not report losses throughout the observation period. Based on these criteria, 154 companies published annual and sustainability reports; however, 104 companies did not consistently disclose sustainability reports, and 18 companies reported financial losses, resulting in a final sample of 32 eligible companies. With a four-year observation period, the total number of observations was 128 firm-year samples. Data analysis in this study was conducted using SmartPLS software.

## 4 Results and discussion

### 4.1 Results

#### 4.1.1 Result of Outer Model

##### a. Convergent Validity

**Table 2.** Convergent validity

Variable	Loading	AVE
Profitability (PR)	1.000	1.000
Leverage (LV)	1.000	1.000
Company Size (CS)	1.000	1.000
Industry (IN)	1.000	1.000
Materiality Disclosure (MD)	1.000	1.000

Source: Processed secondary data, 2025

The data in this study met the validity criteria. This is indicated by the outer loading values and the AVE values in **Table 2**, which are 1.000 each. Given that these figures are above the

minimum standards (0.7 for loading and 0.5 for AVE), all variables are declared convergent valid.

#### b. Discriminant Validity

The validity requirements for discriminants in this study have been satisfied. This is shown in **Table 3**, which shows that the loading values for the structural variables (1.000) and other variables are consistently greater than the load values for other constructs and are above the standard of 0.7.

**Table 3.** Discriminant validity

	<b>P</b>	<b>L</b>	<b>UP</b>	<b>ID</b>	<b>PM</b>
PR	1.000				
LV	-0.287	1.000			
CS	-0.429	0.582	1.000		
IN	0,384	-0.674	-0.666	1.000	
MD	-0,240	0.250	0.211	-0.392	1.000

Source: Processed secondary data, 2025

#### c. Composite Reliability

Based on the minimum threshold of 0.7, the Composite Reliability and Cronbach's Alpha values of 1.000 in **Table 4** indicate that the measurement results are highly reliable.

**Table 4.** Composite reliability and cronbach's alpha

<b>Variable</b>	<b>Composite Reliability</b>	<b>Cronbach's Alpha</b>
PR	1.000	1.000
LV	1.000	1.000
CS	1.000	1.000
IN	1.000	1.000
MD	1.000	1.000

Source: Processed secondary data, 2025

### 4.1.2 Structural Model Evaluation (Inner Model)

#### a. Coefficient of Determination

**Table 5** shows an R-Square value of 14.5%. This means that the model is able to explain 14.5% of the influence on materiality disclosure.

**Table 5.** Value of R Square

	<b>R Square</b>	<b>R Square Adjusted</b>
Materiality Disclosure	0.172	0.145

Source: Processed secondary data, 2025

#### b. Variance Inflation Factor

**Table 6.** Value of inner variance inflation factor

	<b>VIF</b>	<b>Description</b>
PR	1.253	There is no multicollinearity.
LV	1.947	There is no multicollinearity.
CS	2.033	There is no multicollinearity.
IN	2.358	There is no multicollinearity.

Source: Processed secondary data, 2025

Table 6 shows VIF values  $< 5$ , indicating that there is no multicollinearity problem in the research data.

#### 4.1.3 Hypothesis Testing Results

The results of the path analysis are shown in **Table 7**.

**Table 7.** Path Analysis

	Path Coefficient	Std. Error	t-value	P value	t-table	Description
P > MD	-0.132	0.093	1.412	0.158	1.96	H1a not accepted
L > MD	-0.001	0.067	0.017	0.986	1.96	H1b not accepted
CS > MD	-0.130	0.111	1.168	0.243	1.96	H2 not accepted
IN > MD	-0.428	0.096	4.448	0.000	1.96	H3 not accepted

Source: Processed secondary data, 2025

Based on **Table 7**, it shows that profitability, leverage, and company size have a t-value  $< 1.96$  and p-value  $> 0.05$ , so they have no impact on materiality disclosure, therefore the hypothesis is rejected. The industry variable has a path coefficient of -0.428 with a t-value of 0.017 and a p-value of 0.000, meaning that the t-value is  $< 1.96$  and the p-value is  $< 0.05$ . Therefore, there is a negative influence between industry and materiality disclosure in sustainability reports, so H3 is not supported.

## 4.2 Discussion

### 4.2.1 Profitability in Relation to Materiality Disclosure in Sustainability Reports

Profitability does not affect materiality disclosure. Companies tend to priorities corporate profits over non-financial performance [9]. Companies tend to ignore sustainable activities, one of which is related to materiality disclosure. The results of this study are in line with [7] and [8] that profitability has no effect on materiality disclosure. This differs from [13] and [6] that profitability can increase materiality disclosure in sustainability reports.

### 4.2.2 Leverage on Materiality Disclosure in Sustainability Reports

The company's ability to manage assets involving creditors cannot be used to predict materiality disclosure. In identifying crucial sustainability points, the company prioritizes the involvement of key stakeholders. This materiality determination is made without considering leverage aspects, so the focus remains on mutual interests [7]. The results are in line with [7] that leverage has no effect on materiality disclosure. However, they are not in line with [13] and [6] that leverage has an effect on materiality disclosure in sustainability reports.

### 4.2.3 Company Size and Materiality Disclosure in Sustainability Reports

Company size has no impact on materiality disclosure. The nearly uniform company size in this study failed to show a significant difference in materiality disclosure. Since the focus of sustainability reports is on the process of assessing material topics and their matrices, the total does not automatically become a reference in materiality disclosure. The results are in line with [7] and [6] that company size has no effect on materiality disclosure in

sustainability. This differs from [13] and [8] that company size has an impact on materiality disclosure.

#### 4.2.4 Industry Regarding Materiality Disclosure in Sustainability Reports

The results explain that the more sensitive an industry is to sustainability, the lower the level of materiality will be. Industry classification (environmentally sensitive and insensitive) can predict the level of materiality disclosure in sustainability reports. A negative relationship was found, indicating that companies in environmentally sensitive sectors (construction, plantation, and infrastructure) actually have lower disclosure levels because they only present materiality matrices without in-depth explanations of procedures. Conversely, companies that are not environmentally sensitive tend to be more comprehensive in describing materiality assessment steps with a focus on economic aspects. This is in line with [8], who states that the type of industry has an impact on corporate sustainability. The results are not in line [7] and [12], who state that industry has no effect on voluntary disclosure in sustainability reports.

## 5 Conclusion

Financial performance indicators covering profitability and leverage, as well as company size, have not been shown to have an impact on materiality disclosures. Meanwhile, the industry variable has a negative impact on materiality disclosure. This study still includes the service sector, which is not involved in processing raw materials into finished products, which is not in line with the definition of industry in the independent variable itself, so the results obtained are less accurate. Future studies are expected to only involve companies engaged in processing raw materials into finished products, such as the manufacturing sector.

## References

1. N. S. Bing and A. Amran, "The Role of Board Diversity on Materiality Disclosure in Sustainability Reporting.," *Global Business & Management Research*, vol. 9, no. 4, pp. 96–109, 2017.
2. V. Krivogorsky, "Sustainability reporting with two different voices: The European Union and the International Sustainability Standards Board," *Journal of International Accounting, Auditing and Taxation*, vol. 56, Sep. 2024, doi: 10.1016/j.intaccudtax.2024.100635.
3. dpr.go.id, "Alien Mus Pertanyakan Komitmen ANTAM Cegah Pencemaran dan Kerusakan Lingkungan," dpr.go.id. Accessed: Feb. 13, 2023. [Online]. Available: <https://www.dpr.go.id/berita/detail/id/40947/t/Alien+Mus+Pertanyakan+Komitmen+A+NTAM+Cegah+Pencemaran+dan+Kerusakan+Lingkungan>
4. cnnindonesia.com, "Ratusan Buruh Demo Buntut PHK 161 Pekerja Unilever di Surabaya," cnnindonesia.com. Accessed: Feb. 13, 2023. [Online]. Available: <https://www.cnnindonesia.com/ekonomi/20220330204716-92-778165/ratusan-buruh-demo-buntut-phk-161-pekerja-unilever-di-surabaya>
5. D. Adhariani and E. du Toit, "Readability of sustainability reports: evidence from Indonesia," *Journal of Accounting in Emerging Economies*, vol. 10, no. 4, pp. 621–636, 2020, doi: 10.1108/JAEE-10-2019-0194.
6. M. B. Farooq, R. Zaman, D. Sarraj, and F. Khalid, "Examining the extent of and drivers for materiality assessment disclosures in sustainability reports," *Sustainability*

- Accounting, Management and Policy Journal*, vol. 12, no. 5, pp. 965–1002, 2021, doi: 10.1108/SAMPJ-04-2020-0113.
7. S. B. Ngu and A. Amran, “Materiality disclosure in sustainability reporting: Evidence from Malaysia,” *Asian Journal of Business and Accounting*, vol. 14, no. 1, pp. 225–252, 2021, doi: 10.22452/ajba.vol14no1.9.
  8. R. Gotoh, “Quantitative text analysis of sustainability reporting: Decarbonization strategies and company characteristics in Japan,” *Energy Reports*, vol. 13, pp. 2722–2739, Jun. 2025, doi: 10.1016/j.egyr.2025.02.016.
  9. G. A. Febriyanti, “Factors Affecting Sustainability Reporting Disclosure,” *E-Jurnal Akuntansi*, vol. 31, no. 12, p. 3195, 2021, doi: 10.24843/eja.2021.v31.i12.p12.
  10. D. Rosmayanti, “Pengaruh Profitabilitas, Leverage, dan Ukuran Perusahaan Terhadap Pengungkapan Sustainability Report (Studi Pada Perusahaan Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia Tahun 2014-2018),” *Sains: Jurnal Manajemen dan Bisnis*, vol. 11, no. 1, pp. 105–132, 2018.
  11. F. Susilowati, K. Zulfa, and A. Hartono, “Pengaruh Ukuran Perusahaan, Profitabilitas, Leverage, Tipe Industri, dan Ukuran Dewan Komisaris Terhadap Corporate Social Responsibility Disclosure,” *Isoquant : Jurnal Ekonomi, Manajemen dan Akuntansi*, vol. 2, no. 1, pp. 15–25, 2018.
  12. I. Aulla, N. S. Askandar, and A. F. K. Sari, “Pengaruh Ukuran Perusahaan, Profitabilitas dan Tipe Industri Terhadap Pengungkapan Sukarela Pelaporan Keberlanjutan (Studi empiris pada perusahaan manufaktur yang terdaftar di BEI tahun 2018-2020),” *E-Jra*, vol. 11, no. 04, p. hal. 35-43, 2022.
  13. I. H. Putri, I. Meutia, and E. Yuniarti, “Faktor yang Mempengaruhi Pengungkapan Materialitas pada Laporan Keberlanjutan,” *E-Jurnal Akuntansi*, vol. 32, no. 7, p. 1771, 2022, doi: 10.24843/eja.2022.v32.i07.p08.
  14. Y. Luo and V. Krivogorsky, “The materiality of directors’ and officers’ insurance information: Case for disclosure,” *Research in Accounting Regulation*, vol. 29, no. 1, pp. 69–74, Apr. 2017, doi: 10.1016/j.racreg.2017.04.007.
  15. F. K. Farooq, Rashid Zaman, Dania Sarraj, “Examining the extent of and drivers for materiality assessment disclosures in sustainability reports,” *Sustainability Accounting, Management and Policy Journal*, 2021.