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Sustainability committee as a moderator in the effect of materiality disclosure and stakeholder engagement on sustainability reporting quality

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Abstract--This study aims to examine the effect of Materiality Disclosure and Stakeholder Engagement on the quality of sustainability reporting, as well as to investigate the moderating role of the Sustainability Committee. The theoretical framework is based on Stakeholder Theory and Legitimacy Theory. The population of this study includes all energy sector companies listed on the Indonesia Stock Exchange for the period 2021–2023. The sample was selected using a purposive sampling method, resulting in 50 companies that met the criteria. With a three-year observation period, the total number of observations is 150. Data were analyzed using moderation regression techniques with SPSS software. The results indicate that Materiality Disclosure, Stakeholder Engagement Disclosure, and the Sustainability Committee have a positive influence on the quality of sustainability reporting. Moreover, the Sustainability Committee acts as a quasi-moderator that strengthens the influence of both Materiality Disclosure and Stakeholder Engagement Disclosure on sustainability reporting quality. The findings highlight the importance of the Sustainability Committee as a governance mechanism to enhance the quality of sustainability reporting, and serve as a reference for regulators and companies in promoting more transparent and accountable reporting practices.

Keywords---sustainability committee, materiality disclosure, stakeholder engagement disclosure, sustainability reporting quality.



Introduction

Sustainability reporting must align with the objectives it seeks to achieve, with a focus on transparency, reliability, and stakeholder inclusivity. An ideal sustainability reporting process requires internal corporate leadership with cognitive capabilities in preparing such reports. One of the internal governance structures that can be established is the Sustainability Committee or a Chief Sustainability Officer (CSO). The involvement of a Sustainability Committee reflects a company's commitment to systematically managing sustainability issues. This committee is responsible for designing sustainability strategies, ensuring regulatory compliance, and enhancing reporting transparency (Usmani et al., 2020).

Several studies have investigated the influence of Sustainability Committee involvement on the quality of sustainability reporting. However, the findings remain inconsistent regarding the direct effect of such involvement (Michelon & Parbonetti, 2012; Rodrigue et al., 2013; Rankin et al., 2011; Fuente et al., 2017). These inconsistencies suggest that the Sustainability Committee may not directly affect reporting quality but instead serves a moderating role between other influencing factors and reporting outcomes.

One of the core principles in sustainability reporting is materiality, which helps determine what topics should be disclosed. This principle is essential for companies in preparing their sustainability reports (Global Reporting Initiative [GRI], 2016, 2021). However, the quality of the materiality assessment process remains a topic of academic debate, as highlighted by Kitsikopoulos et al. (2018). Research by Unerman and Zappettini (2014) shows that materiality decisions reflect managerial judgment in disclosing certain information, indicating that companies may use the materiality concept as a strategy to avoid disclosing unfavorable information.

Beske et al. (2019) argue that although organizations like GRI encourage companies to apply the materiality principle, there is limited empirical research on the actual impact of materiality on sustainability reporting practices. These practices include stakeholder engagement methods, criteria used, and underlying assumptions, which are often not fully disclosed by companies. GRI guidelines emphasize the importance of engaging stakeholder groups in materiality analysis, yet academic studies on the practical implementation of stakeholder participation remain limited (Pérez et al., 2015).

Most companies face various stakeholders with conflicting interests, making subjectivity a significant factor in assessing materiality. This leads to inconsistencies in evaluation processes and undermines stakeholder assessments (Calabrese et al., 2015). Companies that apply the materiality principle in sustainability reporting often focus on building trust in the disclosed information, in line with Legitimacy Theory. Thus, there is a gap in the comprehensive and credible application of materiality and stakeholder engagement principles to avoid misleading impression management.

From the perspective of Stakeholder Theory, improving the comparability and usefulness of sustainability reports can be achieved by focusing on the most relevant elements within industry-specific contexts (Ferrero-Ferrero et al., 2020). Other studies also indicate that financial performance and internal firm characteristics are closely associated with the level of transparency in non-financial reporting (Hossain et al., 1994; Brammer & Pavelin, 2006; Dang et al., 2018; Shamil et al., 2014). Larger firms tend to emphasize sustainability disclosure to meet stakeholder expectations. Meanwhile, under Legitimacy Theory, profitable firms are more likely to disclose non-financial information to demonstrate their social contributions. Companies with high leverage levels may implement legitimacy strategies to influence stakeholder and shareholder perceptions (Freeman, 1984).

Therefore, this study aims to examine the role of Sustainability Committee involvement in moderating the factors that influence sustainability reporting quality from the dual perspectives of Stakeholder Theory and Legitimacy Theory. The study focuses on materiality disclosure and stakeholder engagement within the energy sector, an industry with unique characteristics such as a dynamic landscape and potential ecosystem disruptions, which directly impact corporate economic, social, and environmental conditions.

Literature Review and Hypothesis Development

The materiality principle is a central aspect of sustainability reporting as it helps filter information that is relevant to a company's economic, social, and environmental impacts. From the perspective of Legitimacy Theory, companies select topics deemed important by stakeholders to gain social legitimacy. Similarly, Stakeholder Theory emphasizes the importance of disclosing information that is meaningful and valuable to stakeholders.

Unerman and Zappettini (2014) found that materiality judgments are influenced by managerial interests in disclosing favorable information. Kitsikopoulos et al. (2018) noted that materiality assessments are often subjective and may undermine the credibility of sustainability reports. However, Beske et al. (2019) emphasized that the proper implementation of the materiality principle enhances the relevance and focus of sustainability disclosures.

H1: Materiality disclosure has a positive effect on sustainability reporting quality. Stakeholder engagement reflects the dialogical process between companies and the parties affected by their operations. According to Stakeholder Theory, firms are responsible for addressing the needs and expectations of their stakeholders through transparent reporting. Meaningful engagement also contributes to identifying material issues and shaping sustainability strategies.

Pérez et al. (2015) argue that effective stakeholder involvement can enhance the quality of sustainability reports by broadening managerial perspectives. Ferrero-Ferrero et al. (2020) found that such engagement improves the comparability and usefulness of reports. On the other hand, Calabrese et al. (2015) warn that conflicting stakeholder interests may introduce subjectivity and inconsistency in the reporting process.

H2: Stakeholder engagement disclosure has a positive effect on sustainability reporting quality.

A Sustainability Committee or Chief Sustainability Officer (CSO) serves as an internal governance structure responsible for designing and overseeing a company's sustainability strategy. Its existence reflects a long-term commitment to transparency and responsible reporting. In the context of Legitimacy Theory, the committee supports the company in maintaining its image and credibility through accountable disclosures.

Usmani et al. (2020) confirmed the important role of the sustainability committee in ensuring reporting quality. However, studies by Michelin & Parbonetti (2012), Rodrigue et al. (2013), and Fuente et al. (2017) produced mixed results regarding its direct impact. These inconsistencies suggest that the committee's effect may be more complex and context-dependent.

H3: The sustainability committee has a positive effect on sustainability reporting quality.

The Sustainability Committee is expected to strengthen the relationship between materiality disclosure and sustainability reporting quality. The committee plays a supervisory role in ensuring that the identification of material issues follows a structured and objective process aligned with GRI principles. Under Stakeholder Theory, the committee ensures that stakeholder-relevant issues are thoroughly addressed in the report.

Kitsikopoulos et al. (2018) observed that the effectiveness of materiality disclosure relies heavily on internal governance mechanisms. Beske et al. (2019) emphasized that a structured materiality assessment process, facilitated by the sustainability committee, contributes to improved report focus and integrity. While empirical evidence on this moderating role remains limited, it presents a significant research opportunity.

H4: The sustainability committee strengthens the effect of materiality disclosure on sustainability reporting quality.

In the context of stakeholder engagement, the Sustainability Committee plays a strategic role in bridging diverse stakeholder interests. It facilitates effective communication and helps manage stakeholder expectations, ensuring that the outcomes of engagement are accurately and comprehensively reflected in sustainability reports. Legitimacy Theory posits that such structured engagement enhances the company's perceived accountability.

Pérez et al. (2015) and Ferrero-Ferrero et al. (2020) emphasized that stakeholder engagement yields more effective outcomes when supported by strong governance structures. A sustainability committee can enhance the quality of engagement processes, particularly in terms of data accuracy and report usefulness. However, few studies have explored the moderating role of sustainability committees in this context.

H5: The sustainability committee strengthens the effect of stakeholder engagement on sustainability reporting quality.

Methods

This study was conducted using data from the Indonesia Stock Exchange (IDX), accessed through www.idx.co.id, as well as from the official websites of the selected companies. The subjects of this research are energy sector companies listed on the IDX during the period 2021–2023. This timeframe was chosen because 2021 marked the beginning of mandatory sustainability reporting for publicly listed companies in Indonesia. Moreover, the 2021 Environmental Performance Index evaluation revealed a low level of sustainability performance among Indonesian companies. These developments raised research concerns regarding the quality of sustainability reporting among listed companies in Indonesia during that period.

The population of this study includes all energy sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The energy sector was selected due to the complex and interrelated sustainability issues it faces across social, economic, and environmental dimensions. In Indonesia, energy companies are subject to increasingly stringent regulations regarding sustainability reporting, including the mandatory adoption of standards such as the Global Reporting Initiative (GRI). Given these challenges, energy companies must adopt sustainability-focused policies and practices—not only to ensure economic profitability but also to enhance social welfare and mitigate environmental impact. Therefore, a strong commitment to transparent and integrated sustainability reporting is crucial. Assessing this commitment through the quality of sustainability reporting is essential to understand how energy companies address sustainability issues.

This study employs a purposive sampling method, in which the sample is selected based on specific criteria. The sample consists of energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period that meet the following criteria:

- a) Energy sector companies listed on the IDX that published annual reports for the years 2021–2023.
- b) Energy sector companies that published sustainability reports for the years 2021–2023.

Based on these criteria, a total of 50 energy sector companies listed on the IDX during the 2021–2023 period was selected as the research sample.

The first research question, which focuses on the quality of disclosure in sustainability reporting, will be addressed using content analysis with a score-based measurement instrument. Meanwhile, the second research question, which examines the factors influencing sustainability reporting quality, will be analyzed through a quantitative approach using hypothesis testing. The statistical method employed is Moderated Regression Analysis (MRA), conducted with the assistance of statistical software.

Result and Discussion

Results of Moderated Regression Analysis

The calculation of moderated regression coefficients was performed using SPSS 26.0 for Windows. The results are presented in Table 1 below:

Table 1. Results of Moderated Regression Analysis

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	-1.436	0.096	—	-14.906	0.000
Materiality Disclosure (MAT)	0.074	0.010	0.738	7.786	0.000
Stakeholder Engagement (STE)	0.272	0.034	0.750	7.951	0.000
Sustainability Committee (TBDM)	0.663	0.042	2.060	15.887	0.000
Firm Size	-0.001	0.023	-0.002	-0.043	0.966
Leverage	0.011	0.023	0.024	0.483	0.630
ROA	0.005	0.009	0.025	0.509	0.612
MAT*TBDM Interaction (X1.M)	0.040	0.005	1.289	8.856	0.000
STE*TBDM Interaction (X2.M)	0.169	0.015	1.320	11.044	0.000

Secondary Data, 2024

$$Y = -1.436 + 0.074X_1 + 0.272X_2 + 0.663M - 0.001C_1 + 0.011C_2 + 0.005C_3 + 0.040X_{1M} + 0.169X_{2M}$$

- 1) A constant value of -1.436 indicates the baseline value of sustainability reporting quality (SRQ) when all predictors are set to zero.
- 2) An increase of 1 unit in materiality disclosure (X1) is associated with a 0.074 increase in SRQ, holding other variables constant.
- 3) A 1-unit increase in stakeholder engagement (X2) is associated with a 0.272 increase in SRQ.
- 4) A 1-unit increase in sustainability committee engagement (M) corresponds to a 0.663 increase in SRQ.
- 5) The interaction term X1*M has a positive coefficient (0.040), suggesting that the sustainability committee strengthens the effect of materiality disclosure on SRQ.
- 6) The interaction term X2*M also has a positive coefficient (0.169), indicating that the sustainability committee reinforces the influence of stakeholder engagement on SRQ.

Coefficient of Determination (R²)

Table 2. Coefficient of Determination (R²)

R	R Square	Adjusted R ²	Std. Error
0.841	0.707	0.691	0.161

Secondary Data, 2024

The adjusted R^2 value of 0.691 indicates that 69.1% of the variation in sustainability reporting quality is explained by the independent variables (MAT, STE, TBDM, Size, Leverage, ROA, X1.M, X2.M). The remaining 30.9% is explained by other factors not included in the model.

Model Feasibility (F-Test)

Table 3. ANOVA (F-Test)

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.938	8	1.117	42.615	0.000
Residual	3.697	141	0.026		
Total	12.634	149			

Secondary Data, 2024

With a significance level of 0.000 (< 0.05), the F-test indicates that the regression model is feasible and statistically significant. This confirms that the independent variables collectively explain the dependent variable, SRQ.

Partial Effects (t-Test Results)

Table 4. t-Test Results (Hypothesis Testing)

Variable	Coefficient (B)	t	Sig.	Conclusion
Materiality Disclosure (X1)	0.074	7.786	0.000	Significant Positive
Stakeholder Engagement (X2)	0.272	7.951	0.000	Significant Positive
Sustainability Committee (M)	0.663	15.887	0.000	Significant Positive
Interaction X1*M	0.040	8.856	0.000	Significant Positive
Interaction X2*M	0.169	11.044	0.000	Significant Positive

Secondary Data, 2024

The Effect of Sustainability Committee Involvement on Sustainability Reporting Quality

The results indicate that the involvement of the sustainability committee (TBDM) has a significant positive effect on sustainability reporting quality, with a regression coefficient of 0.663 and a p-value of 0.000 (< 0.05). This means that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. These findings demonstrate that the presence and active role of a sustainability committee enhances the quality of sustainability reporting by strengthening internal governance and ensuring strategic alignment with sustainability objectives.

According to Solimun (2010), moderation variables can be classified into four types: pure moderator, quasi moderator, homologiser moderator, and predictor moderator. The classification depends on the significance and direction of the coefficients (β) within a moderated regression model, formulated as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \beta_4 X_1 * M$$

The Moderating Role of Sustainability Committee in the Relationship between Materiality Disclosure and Sustainability Reporting Quality

The results show that the sustainability committee variable (M) is statistically significant ($p = 0.000$; $\beta_3 = 0.663$), and the interaction term between materiality disclosure (X_1) and sustainability committee involvement ($X_1 * M$) is also significant ($p = 0.000$; $\beta_4 = 0.040$). These results indicate that the committee serves as a quasi-moderator, meaning it not only moderates the relationship between X_1 and Y but also independently affects the dependent variable.

Based on the direction of coefficients—where both β_1 (Materiality Disclosure) and β_4 (Interaction $X_1 * M$) are positive—it can be concluded that the presence of a sustainability committee strengthens the positive effect of materiality disclosure on the quality of sustainability reporting. This finding supports the view that internal governance mechanisms, such as sustainability committees, reinforce the effectiveness of sustainability disclosures by ensuring that material topics are strategically addressed.

The Moderating Role of the Sustainability Committee in the Relationship between Stakeholder Engagement and Sustainability Reporting Quality

Similarly, the sustainability committee variable (M) is significant ($p = 0.000$; $\beta_3 = 0.663$), and the interaction between stakeholder engagement (X_2) and sustainability committee involvement ($X_2 * M$) is also significant ($p = 0.000$; $\beta_5 = 0.169$). Based on Solimun's classification, this again identifies the committee as a quasi-moderator.

The regression coefficients for both X_2 (Stakeholder Engagement) and the interaction term $X_2 * M$ are positive, indicating that the sustainability committee enhances the positive impact of stakeholder engagement on the quality of sustainability reporting. This suggests that companies with a dedicated sustainability governance structure are more capable of translating stakeholder input into meaningful disclosures, thereby improving the relevance, credibility, and transparency of their reports.

Conclusion

- 1) The results indicate that materiality disclosure has a positive effect on the quality of sustainability reporting. This suggests that companies that disclose issues considered material by stakeholders are more likely to produce reports with higher-quality and more relevant information content.
- 2) Stakeholder engagement also demonstrates a significant positive influence on sustainability reporting quality. Active and authentic stakeholder involvement enhances the relevance, transparency, and accountability of the reports, ensuring that the disclosed information reflects real stakeholder concerns and expectations.
- 3) The study also finds that sustainability committee involvement positively affects the quality of sustainability reporting. This finding aligns with the

consensus in existing literature, which positions the sustainability committee as a strategic governance element that plays a crucial role in improving the substance and reliability of sustainability disclosures.

- 4) Furthermore, the results reveal that the sustainability committee acts as a quasi-moderator in the relationships between materiality disclosure and stakeholder engagement with the quality of sustainability reporting. This indicates that the committee not only has a direct influence on reporting quality but also strengthens the effects of the independent variables. As part of internal governance, the committee plays a critical role in ensuring that reporting practices align with stakeholder information needs and reinforce the company's social legitimacy. Hence, the committee serves a strategic function in transforming sustainability reporting from a symbolic exercise into a substantive and accountable process.

Managerial Implication

This study emphasizes the importance of integrating strategic disclosure, stakeholder participation, and governance structure to enhance the quality of sustainability reporting, particularly in Indonesia's energy sector. It contributes significantly to addressing the gap between regulatory requirements and the actual quality of sustainability reporting. As outlined in the background, despite mandatory reporting introduced through Indonesia's Financial Services Authority Regulation (POJK No. 51/POJK.03/2017), the quality of disclosures remains suboptimal. These findings demonstrate that regulatory compliance alone is insufficient. High-quality sustainability reporting requires authentic stakeholder engagement, disclosure of relevant material issues, and support from strong governance mechanisms such as a dedicated sustainability committee.

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