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Sustainability Reporting (ESG) Quality: a Comparative Study between Manufacturing and Banking Companies

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ABSTRACT

This study aims to examine the influence of standalone CSR reports, GRI standards, and external assurance services on the quality of ESG sustainability reports between 2 sectors, the manufacturing and banking sectors. The data used in this study were 47 banking sectors and 163 manufacturing sectors. The results of this study are expected to provide an understanding of cross-sector sustainability and assist stakeholders regarding information on sustainable reporting practices. This study contributes, firstly, by providing evidence on the level of quality of sustainability reporting in two different sectors, the banking and manufacturing sectors. Secondly, this study focuses on standalone CSR disclosures, the use of GRI standards, and external assurance services. The findings show that the quality of ESG sustainability reports in the banking sector is more influenced by external assurance services. Banking companies assume that external assurance services can improve the credibility and quality of sustainability report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards. Meanwhile, in the manufacturing sector, the quality of ESG sustainability reports in banking companies is more influenced by their own CSR reports. CSR presented by a separate company is an important type of report because it shows the company's commitment to addressing environmental issues.

Keywords : *Standalone CSR disclosures, GRI standards, external assurance services, sustainability reporting (ESG).*

A. INTRODUCTION

The development of sustainability reporting implementation is an important element to influence the quality of reporting. The success of a company in gaining profit is influenced by the optimal role of the company. Companies are not only oriented towards economic profit alone, but also need to pay attention to social and environmental aspects (Siueia et al., 2019). The practices and

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activities carried out by the company are important in order to maintain the quality of sustainability reporting (Awaysheh et al., 2020). Sustainability reporting is not only a company's commitment to comply with regulations, but also provides added value to increase company value and stakeholder trust (Christensen et al., 2021). In addition, the company's concern for the environment and society will increase public trust. In Indonesia, sustainability reports (SR) have been required for financial institutions and public companies (LPPI, 2019). Based on data, only 54% of companies in Indonesia have disclosed strategies to address stakeholder concerns and improving sustainability skills for BOD and management are still at a low level.

The quality of sustainability reporting is an important aspect to provide credible information and communication tools to stakeholders (Correa-Garcia et al., 2020). A good relationship between a company and its stakeholders has an impact on economic growth which will affect the sustainability of the company and the company's long-term goals (Al-Shaer & Zaman, 2019). Credible information conveyed by the Company builds trust in the business. Based on data shown, an increase in the number of companies obtains external assurance from independent parties for ESG disclosure, increasing from 37% in 2021 to 49% in 2022 among companies in Indonesia. The use of external assurance can improve the quality of disclosure.

Banking companies have begun to make efforts to maintain the quality of SR in order to avoid negative assessments and stakeholder demands (Khan et al., 2021). The development of sustainable finance implementation in Indonesia can be seen from the quality of SR submitted by banks. As an initial stage, LPPI has conducted an SR study on eight "First Movers on Sustainable Banking" banks in Indonesia (hereinafter abbreviated as first movers) using 9 report components according to the POJK framework as a reference for assessing the reports of the eight banks. The results show that there are banks having the highest composite values and showing improvements in SR from year to year, but the average composite value is low, indicating a decline in SR quality.

The quality of corporate sustainability reports can be driven by ESG practices. Demands from the government and several regulations will encourage companies to improve the quality of sustainability reports in order to reduce or avoid negative impacts on environmental damage. Research Buallay, (2020) shows that research on comparative studies on the relationship between sustainability disclosure practices and the quality of sustainability reporting is still rare. The quality of sustainability reporting is related to environmental, social and governance (ESG) (Huang, 2021). ESG practices in companies are practices considered important to stakeholders so that the relationship between sustainability disclosure practices and the quality of sustainability reports is important to study (Gupta, 2024). ESG disclosure in Indonesia is still voluntary, so this study can provide input to the government to create new regulations leading to mandatory ESG disclosure so that companies can improve the quality of sustainability reports and develop new ESG indicator concepts according to Indonesian characteristics to assess and evaluate the decision-making process.

Sustainability reporting is important for manufacturing and banking companies. Activities in the banking sector are not directly related to the environment. However, activities from investment policies and lending to external parties can be related to environmental damage or have an impact on the environment. Therefore, several studies argue that the banking sector can be considered a driver of other sector activities causing environmental damage. Meanwhile, the manufacturing sector is related to the environment because its main activity is the process of changing raw materials into finished materials. This activity produces waste. So this raises environmental issues and has an impact on the environment. In addition, digital manufacturing technology is another competitive advantage of sustainability related to social impacts (Acerbi & Taisch, 2020). Issues regarding environmental impacts have caused companies to increase disclosure of information regarding environmental, social and governance activities. Thus, companies will commit to reporting sustainability reports to reduce risks and improve company performance (Siueia et al., 2019).

Disclosure of stand-alone sustainability reports can affect the quality of information provided by companies and increase transparency (Michelon et al., 2015). CSR reports presented by separate companies are an important type of report because they show the company's commitment to addressing environmental issues. Disclosure of sustainability reports is increasing among companies, but few studies have investigated the impact of sustainability reporting in the manufacturing sector on their performance. Good quality sustainability reports with separate CSR reports can affect company performance (Buallay, 2019).

The quality of information conveyed by the Company is important to increase trust between the company and stakeholders (Shad et al., 2019). The GRI reporting standards implemented by the company can improve sustainability reporting and transparency to stakeholders (Mishra & Sant, 2024). Based on data, 80% of listed companies in Indonesia have adopted the Global Reporting

Initiative (GRI) 2021 Sustainability Reporting Standards in their Sustainability Reports. These GRI standards help companies report the impact of the company's business and operations on the economy, environment, society, and governance to various stakeholders. Research Safari & Areeb, (2020) provides results in their research that companies having implemented these standards are committed to maintaining the quality of sustainable reporting compared to companies that do not implement these standards. So if the quality of sustainable reporting increases, the company's performance will also increase.

Credible information provided by the Company to build trust in the business, this report shows an increase in the number of companies obtaining external assurance from independent parties for ESG disclosure (Maroun, 2019). Credibility is one of the quality indicators related to CSR information (Quick & Inwinkl, 2020). Criticism from stakeholders regarding low credibility asks for demands to use external assurance services or social audits from company management. External assurance services can increase the credibility and quality of CSR report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards (Xiao & Shailer, 2022). Assurance services can improve the quality of information and increase the credibility of information (Wang et al., 2020).

Research Siueia et al., (2019) found that CSR disclosure has decreased and CSR behavior affects the performance of the banking sector. In addition, Albitar et al., (2020) also supports that in the banking sector there needs to be sustainable action on environmental concerns to increase economic growth. ESG quality is very important to accelerate sustainable growth plans (Gao et al., 2022). The development of the last decade, countries have implemented sustainability, the UN with the Sustainable Development Goals (SDGs) and GRI developed sustainability principles. A good sustainability strategy will improve performance (Adams & Abhayawansa, 2022). The role of stakeholders that companies must recognize and respect is the rights of stakeholders to encourage active cooperation between companies and stakeholders in maintaining the sustainability of the company. According to stakeholder theory, corporate responsibility reflects the needs of stakeholders in evaluating the company's performance to carry out its duties according to stakeholder needs (Barney & Harrison, 2020).

The study of the relationship between corporate social responsibility (CSR) and firm value has been developing for decades. Research Amidjaya & Widagdo, (2020) found that the quality of sustainability reports is still very diverse and sustainability reporting in banks listed in Indonesia is still low. Issues related to social responsibility decades affect business activities in Indonesia. Factors of environmental damage, pollution, poverty, and foreign investment needs are factors that underlie the importance of the quality of sustainability reports. Indonesia is entering an era full of significant ecological challenges and overcoming the climate crisis tends to stagnate or even regress. In addition, based on data from the Central Statistics Agency (BPS), the percentage of poor people in September 2020 increased to 10.19 percent, increasing by 0.41 percent in March 2020 and increasing by 0.97 percent in September 2019. These facts are the basis for the importance of sustainability reporting to motivate companies to address social and environmental problems. This study contributes, firstly, by providing evidence regarding the level of quality of sustainability reporting in two different sectors, the banking and manufacturing sectors. Second, this study focuses on CSR disclosure itself, the use of GRI standards, and external assurance services. Thus, the results of this study are expected to provide an understanding of cross-sector sustainability and assist stakeholders with information on sustainable reporting practices. Based on the problems explained above, the formulation in this study as follows: Does CSR Reporting itself affect the Quality of Sustainability Reporting in Manufacturing Companies, Does GRI Standards affect the Quality of Sustainability Reporting in Manufacturing Companies, Does External Assurance affect the Quality of Sustainability Reporting in Manufacturing Companies, Does CSR Reporting itself affect the Quality of Sustainability Reporting in Banking Companies, Does GRI Standards affect the Quality of Sustainability Reporting in Banking Companies, Does External Assurance affect the Quality of Sustainability Reporting in Banking Companies.

B. METHODOLOGY

This study uses a research sample of 47 banking companies and 163 manufacturing companies. This study uses samples from manufacturing and banking companies in 2023. The analysis to test the hypothesis in this study uses multiple regression. The regression model is used to test the effect of independent variables on the dependent variable. This study analyzes factors that can improve the quality of sustainability reports (ESG).

The scope of this study includes stand-alone report, the use of GRI standards and external assurance affecting the quality of sustainability reports (ESG) with the following variable measurements:

Stand-Alone Report

CSR activities are activities of several activities carried out by the Company. Haji et al., (2021), companies that report CSR have a major influence on the value or performance of the company if the report is separate from the annual report rather than integrated into the financial report. This study uses a dummy variable for its measurement, if the company publishes a separate CST report; it is given a value of 1, while the value is 0 if CSR information is included in the company's annual report.

GRI Standards

GRI standards are standards used to report on economic, environmental and social impacts. Kim et al., (2019), on average CSR performance has a positive relationship with the company's financial performance. Companies that report CSR reports will provide guarantees to external parties so that the financial performance value is higher than companies without guarantee services. Measurement of GRI standards is measured by a dummy variable if the company applies GRI standards in the CSR report; it is given a value of 1 and a value of 0 if there is no such statement.

External Assurance Services

External assurance services can improve the credibility and quality of CSR report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards (Xiao & Shailer, 2022). Assurance services can improve the quality of information and increase the credibility of information (Wang et al., 2020). External assurance measurement is measured with a value of 1 if the company presents a guarantee statement in the CSR report, while a value of 0 indicates no statement.

Sustainability Report Quality

The measurement of the quality of sustainability reports in this study adopts previous research (Saraswati et al., 2024). This study uses content analysis techniques. Then the quality of the sustainability report is calculated by the arithmetic average of the weighted scores on all items. The scope of this study uses social, environmental, and governance aspects. This study is to determine the indicators of disclosure of the quality of sustainability reports using the GRI standard framework reference. Measurement and determination of sustainability report indicators are in accordance with Indonesian conditions.

The data used in this study are Cross Section. The linear regression model uses OLS. First, to test the variables studied in this study, conducting a classical assumption test, first conducting a normality test using the histogram method. Second, multicollinearity is to test the correlation between independent variables, to ensure that there is no correlation between independent variables by looking at the value of the Histogram. Third, testing heteroscedasticity is using semi-log regression by looking at the tolerance value below 0.10 and the VIF value is not above 10. After that, if all variables pass the test, descriptive analysis and hypothesis testing are carried out. Hypothesis testing uses multiple linear regression. The model in this test is as follows:

$$ESG^1=\alpha+\beta 1X1+\beta 2x2+\beta 3x3+£_i$$
$$ESG^2=\alpha+\beta 1X1+\beta 2x2+\beta 3x3+£_i$$

Information :
ESG^1: ESG Quality of Manufacturing Companies
ESG^2: ESG Quality of Banking Companies
$\beta 1$- $\beta 3$: Regression coefficient of independent variables
X1 : Stand-alone report
X2 : GRI Standards
X3 : External Assurance Services

C. RESULTS AND DISCUSSION

Descriptive Analysis

Table 1. Descriptive Analysis Results

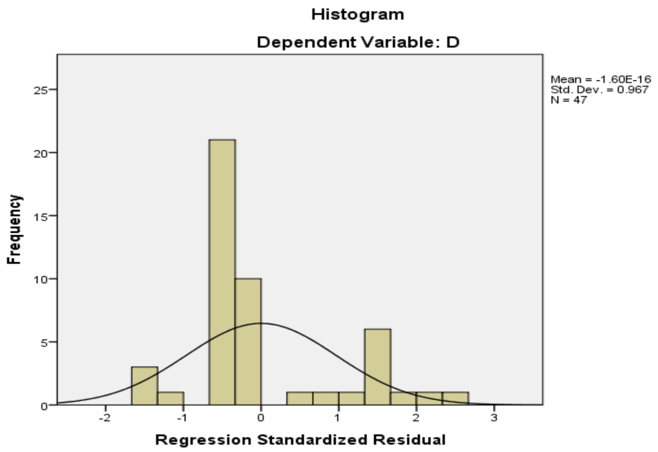
Variables	N		Minimum		Maximum		Mean	
	SP	SM	SP	SM	SP	SM	SP	SM
Stand-alone report	47	163	0,00	0,00	1,00	1,00	0,44	0,36
GRI Standards	47	163	0,00	0,00	1,00	1,00	0,76	0,60
External	47	163	0,00	0,00	1,00	1,00	0,19	0,22

Assurance Services								
ESG Quality	47	163	0,00	15	85	80	19,89	50,21

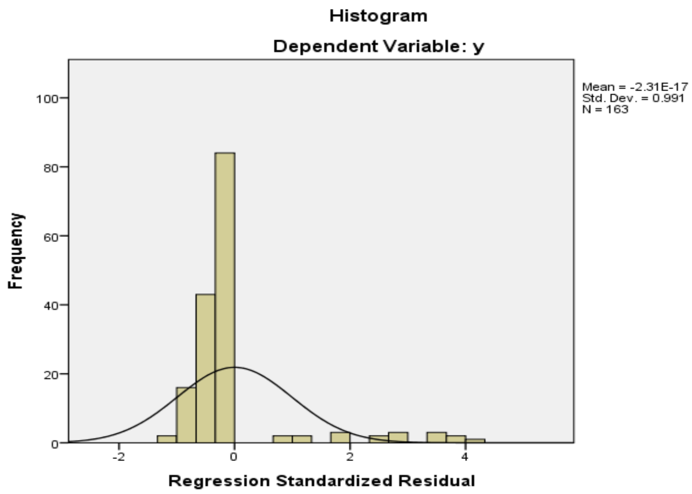
Based on the results of descriptive statistical analysis in both sectors, it shows that the average ESG disclosure is highest in manufacturing companies. This means that more manufacturing companies disclose sustainability reports than banking companies. Manufacturing companies are encouraged to make sustainability disclosures in order to increase transparency about sustainability issues from investors, regulators, and other stakeholders. The manufacturing industry in Indonesia is increasingly expansive. The manufacturing sector is related to the environment because its main activity is the process of changing raw materials into finished materials. This activity produces waste. Thus, this raises environmental issues and has an impact on the environment. This encourages manufacturing companies to disclose more sustainability reports than banking companies. Activities in the banking sector are not directly related to the environment. However, activities from investment policies and lending to external parties can be related to environmental damage or have an impact on the environment. This is what causes some banking companies to be relatively slower to disclose sustainability compared to manufacturing companies.

Sustainability report is an important instrument in ESG reporting approach for Indonesian companies reflecting the company's strategy to respond to climate risk, stakeholder engagement, and better ESG performance (García-Sánchez et al., 2019). The report can describe the sustainability responsibilities of the Board of Directors, demonstrate efforts to improve sustainability skills, and increase credibility in the public. In addition to being a form of transparency to the public, sustainability report is also to align global standards and demonstrate the company's commitment to sustainability.

Classical Assumption Test
Normality Test
Banking Sector



Manufacturing Sector



Based on the histogram graphs in the two images above, it shows that the distribution pattern deviates to the right meaning that both data are normally distributed and the regression meets normality.

Multicollinearity Test

Table 2. Multicollinearity Test

Variables	Banking Sector Tolerance Value	Banking Sector VIF Value	Manufacturing Sector Tolerance Value	Manufacturing Sector VIF Value
Stand-alone report	0.929	1.077	0.863	1.159
GRI Standards	0.895	1.118	0.850	1.177
External Assurance Services	0.943	1.060	0.891	1.122

Based on the test table above, it shows that the tolerance value for the Separate CSR Report, GRI Standards and External Assurance Services variables is more than 0.10 and the VIF value for each variable in this study is less than 10, so that the research variables are free from Multicollinearity.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Variable	Banking Sector Sig. Value	Manufacturing Sector Sig. Value
Stand-alone report	0.059	0.055
GRI Standards	0.464	0.504
External Assurance Services	0.056	0.022

Based on the test above, the sig value of each variable is more than 0.05, meaning that there is no heteroscedasticity.

Banking Sector Results

Table 4. Banking Sector Results

Variable	Hypothesis	Coefficient Results	t-Test Results
Stand-alone report	+	-0.024	0.868
GRI Standards	+	0.153	0.297
External Assurance Services	+	0.366	0.015**
r2			0.18
N			47

n=47*, t < 0.05 **

The results show that the hypothesis test of the significance value of the separate CSR Report variable shows a value of 0.868, the GRI Standard shows a value of 0.297, the value of external assurance services shows 0.015. Based on the test, external assurance services having significance value below 0.05 mean that external assurance affects the quality of ESG sustainability reports. External assurance services can increase the credibility and quality of sustainability report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards (Xiao & Shailer, 2022). Assurance services can improve the quality of information and increase the credibility of information including improving the quality of ESG sustainability (Wang et al., 2020). Reports that have been reviewed by an external assurance party or socially audited, the information is more reliable and the company will strive to improve the quality of sustainability reports because there is a party that checks. Credible information submitted by the Company to build trust in the business. Based on data, an increase in the number of companies obtaining external assurance from independent parties for ESG disclosure means that the quality of sustainability reports will also increase. This is in line with stakeholder and legitimacy theory improving or maintaining the quality of ESG sustainability reports will strengthen the company's legitimacy by the company meeting stakeholder needs.

However, separate CSR reports and GRI standards do not affect the quality of ESG sustainability reports. Separate CSR reports in the banking sector show a value of more than 0.05, meaning that separate CSR reports do not affect the quality of ESG reports and the hypothesis that separate CSR reports affect the quality of sustainability reports is rejected. Based on data, as many as 26 banking companies do not disclose separate CSR reports with annual reports from a total of 47 banking companies. This is in line with Research (Siueia et al., 2019) found that CSR disclosure has decreased and CSR behavior affects improving the performance of the banking sector. There are still many banking companies combining CSR reports with annual reports and there are no mandatory regulations that require the separation of CSR reports and Reports. So that many banking companies in their disclosures are still diverse, some are separate and some are one.

The GRI Standard variable also does not affect companies to improve the quality of sustainability reports. Based on data, there are still many banking companies that have not implemented GRI standards. Research Kumar & Prakash, (2019) provides results regarding that banks in the world are relatively slower to adopt sustainable reporting practices. Khan et al., (2021), QSR on average developed only as a symbol in banks in Bangladesh but several periods that QSR elements have increased and become a substantive trend. Banking companies are still diverse in the use of standards implemented, and the delay in using GRI standards affects the quality of banking companies' ESG sustainability reports.

Manufacturing Sector Results

Table 5. Manufacturing Sector Results

Variable	Hypothesis	Coefficient Results	t-Test Results
Stand-alone report	+	0.291	0.001**
GRI Standards	+	-0.030	0.705
External Assurance Services	+	0.133	0.082
r2			0,10
N			163

n=163*, t < 0.05 **

The results show that only the stand-alone CSR report variable affects the quality of ESG sustainability reports. Disclosure of stand-alone sustainability reports can affect the quality of information provided by companies and increase transparency (Michelon et al., 2015). Based on data, more manufacturing companies disclose stand-alone CSR reports than banking companies. CSR presented by a stand-alone company is an important type of report because it shows the company's commitment to addressing environmental issues (Devie et al., 2020). Good quality sustainability reports with separate CSR reports can affect the quality of company information (Buallay, 2019). The quality of information conveyed by the Company is important to increase trust between the company and stakeholders (Shad et al., 2019). There are many issues in the manufacturing sector related to the environment because its main activity is the process of changing raw materials into finished materials. This activity produces waste. Thus, this raises environmental issues and has an impact on the environment (Balaram, 2019). Therefore, in order to improve the quality of sustainability reports, there needs to be a separate report in disclosing ESG issues in more detail.

However, GRI Standards and External Assurance Services do not affect the quality of sustainability reports. Several manufacturing companies have not used GRI standards; data shows that 98 companies only apply GRI standards. This is like a banking company which shows that companies in Indonesia including manufacturing companies are still diverse in the use of standards implemented, and the delay in using GRI standards affects the quality of ESG sustainability reports of banking companies. This causes manufacturing companies to improve the quality of sustainability reports not only using GRI standards, but also other standards, such as: SDGs standards. Companies report the impact of the company's business and operations on the economy, environment, society, and governance to various stakeholders not only using GRI standards (Lamanda & Vőneki, 2023). This study is not in line with research Safari & Areeb, (2020) which provides results in their research that companies that have implemented GRI standards are committed to maintaining the quality of sustainable reporting compared to companies that do not implement these standards.

External assurance does not affect the quality of ESG sustainability. Manufacturing companies are only 36 companies that use external assurance. Compared to banking companies, manufacturing companies are lower in using external assurance. External assurance services are only used to build trust with stakeholders. Because stakeholder perception External assurance services can increase the credibility and quality of CSR report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards (Xiao & Shailer, 2022). In fact, there are still few manufacturing companies using external assurance, this is because external disclosure or assurance is still not mandatory, so many companies still think that external assurance is only used for certain conditions, such as when the company is in certain problems. In addition, the cost of external assurance is also high causing companies not to fully use external assurance.

E. CONCLUSION

This study aims to examine the influence of separate CSR reports, GRI standards, and external assurance services on the quality of ESG sustainability reports between 2 sectors, the manufacturing and banking sectors. The data used in this study were 47 banking sectors and 167 manufacturing sectors. The quality of ESG sustainability reports in the banking sector is more influenced by external assurance services. Banking companies assume that external assurance services can improve the credibility and quality of sustainability report information if the assurance process is carried out with a focus on meeting stakeholder needs and based on applicable assurance principles and standards. Meanwhile, in the manufacturing sector, the quality of ESG sustainability reports of banking companies is more influenced by separate CSR reports. CSR presented by a separate company is an important type of report because it shows the company's commitment to addressing environmental issues. The quality of good sustainability reports with separate CSR reports can affect the quality of company information.

The findings show that in the banking sector, external assurance services affect the quality of ESG sustainability reports, while GRI standards and CSR reports alone have no effect on improving the quality of ESG sustainability reports. While in the manufacturing sector, CSR reports alone affect the quality of ESG sustainability reports and GRI standard variables and external assurance services do not affect the quality of ESG sustainability reports. The findings show that the conditions between the 2 sectors, especially for the banking sector and the manufacturing sector are different because the two sectors have different characteristics. The banking sector is a sector that can be considered as a driver of other sector activities that cause environmental damage, because it does not directly have an impact on environmental damage. Activities from investment policies and lenders to external parties can be related to environmental damage or have an impact on the environment. In relation to external parties, banking companies make more use of external assurance to improve the quality of ESG sustainability reports, because it minimizes criticism from stakeholders regarding low credibility that can lead to claims. While manufacturing companies are sectors related to the environment because their main activity is the process of changing raw materials into finished materials. From this activity, waste is generated. So this raises environmental issues and has an impact on the environment. Therefore, in order to improve the quality of ESG sustainability, manufacturing companies should disclose their own CSR Reports which can reveal ESG issues in more detail.

This study contributes, firstly by providing evidence on the level of sustainability reporting quality in two different sectors, the banking and manufacturing sectors. Secondly, this study focuses on CSR disclosure alone, the use of GRI standards, and external assurance services to see the effect on the quality of ESG sustainability reports. This study can be used for companies to consider the quality of sustainability reports in more depth. For stakeholders, research can be a consideration in decision making to assess the quality of sustainability from various aspects. For policy makers to consider the quality of ESG sustainability which can be seen from the disclosure indicators, it is important for policy makers to consider in the future that ESG sustainability reports are mandatory.

Suggestions for further researchers suggest examining other factors in improving the quality of ESG sustainability reports and considering measuring the quality of ESG sustainability reports with other standard references and objects that can be compared between countries.

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