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Article

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Isomorphism of integrated reporting's sustainability embeddedness: evidence from Indonesian listed companies

Imanda Firmantyas Putri Pertiwi^{1*}, Hadri Kusuma², Kumala Hadi³, Johan Arifin³, Ika Yoga³ and Auliya Zakky Fahma³

Abstract: This study aimed to discover to what extent listed companies in Indonesia respond to the sustainability embeddedness of integrated reporting (SE of IR) as the world's latest reporting trend. Furthermore, this research also investigated the isomorphism predictors of the SE of IR adoption rate. The data was incorporated into the annual statements of 322 companies listed on the Indonesia Stock Exchange from 2014 to 2019. The panel data procedure employed 1932 observation. Descriptive statistics were used to answer the companies' responses to SE of IR adoption levels. Inferential statistics, including multivariate and univariate analysis, are conducted to discover the isomorphism predictors of SE of IR adoption. As the novelty of this research, the political connection proved to be an effective coercive isomorphism mechanism. Other variables that significantly influenced the adoption of IR are the board's professionalism and the company's participation in sustainability awards. Both variables represent normative isomorphism. In contrast, the parent company as the variable of mimetic isomorphism had no significant effect on SE of IR adoption.

Subjects: Financial Accounting; International Accounting; Management Accounting

Keywords: integrated reporting; sustainability embeddedness; isomorphism; institutional theory; coercive; mimetic; normative



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PUBLIC INTEREST STATEMENT

The accounting world has spent the last decade debating the current trend in corporate performance reporting, namely integrated reporting. The term integrated reporting claimed to be "one for all report" that highlight the company's sustainability performance. This study aims to see whether listed companies in Indonesia have begun to adopt the sustainability embeddedness of integrated reporting (SE of IR) in their reports. Several factors identified in this study that can motivate companies to adopt the SE of IR are the company's political connections, foreign ownership, environmentally sensitive industrial sector, board professionalism, and sustainability awards.

1. Introduction

Integrated reporting (IR) is the most recent reporting trend that addresses some issues with traditional reporting (Elmaghrabi, 2014). One of the main failures of the company's stand-alone reporting is the inability to bridge sustainability and financial matters (Perego et al., 2016). Sustainability can be defined as a three-dimensional measurement of ecological, social, and economic performance and the connections between these dimensions (Elmaghrabi, 2014). Sustainability embeddedness (SE) is a crucial pillar of IR (Adams, C, 2013) that indicates how ecological, social, and economic performance is incorporated into companies' operations, decisions, strategies, policies, and daily business (Le Roux & Pretorius, 2019).

The concern of public companies in Indonesia related to sustainability issues is still at a low level (Kartadjumena & Rodgers, 2019). According to GRI, only 97 companies reported sustainability reporting, or only about 13%. Before being required by the government, sustainability reports lacked interest (Redaksi, 2017). The lack of interest in reporting sustainability performance in Indonesia is hopefully not because of the company's inadequate social and environmental performance, since Stacchezzini et al. (2016) found that companies avoid providing information about sustainability when their social and environmental outcomes are poor.

Some other problems of traditional reporting are the failure to account for all sources of value creation and the failure to communicate the company's business model to the investors (Eccles & Krzus, 2010). Integrated reporting promotes a concise but holistic management reporting system to ease the analysis and decision-making process (Simnett & Huggins, 2015). As a new paradigm, IR is empirically proven to benefit companies. Integrated reporting has proven to increase the company performance (Adegboyegun et al., 2020) and company value (Ellenkamp, 2020; Martinez, 2016; Simona et al., 2018). Integrated reporting enhances investors' ability to assess the company's prospects and provide solutions to overcome the often-repeated criticisms of traditional accounting reporting models (De Villiers et al., 2017).

Except in South Africa, implementation of IR is currently voluntary. However, considering its potential benefits, other countries, including Indonesia, are expected to adopt IR. According to Adhariani and Villiers (2018), both companies and stakeholders in Indonesia believe that IR will improve the quality of corporate reporting. A press release from the Indonesian Accountant Association in November 2020 stated that IR is a comprehensive, innovative, and effective latest reporting trend that should be adopted (Ikatan Akuntan Indonesia, 2020). Responding to the press release from the Indonesian Accountants Association, this study aims to examine the level of readiness of Indonesian listed companies to adopt IR, especially regarding its sustainability embeddedness. Furthermore, this study also aims to observe what phenomena encourage listed companies in Indonesia to adopt the SE of IR.

The level of readiness of listed companies in Indonesia to adopt SE of IR can be seen in how many SE of IR elements are already accommodated in the published company reports. Meanwhile, institutional isomorphism theory is used as the basis of this study to explain the phenomenon that drives companies to adopt SE of IR as a new policy. Previous studies have used many different theories to describe the drivers of IR adoption. Through the VOSviewer mapping process, it is known that the most widely used theories in research on integrated reporting for this decade (2010–2020) are stakeholder theory (Ofoegbu et al., 2018; Vitolla et al., 2020), legitimacy theory (Stacchezzini et al., 2016; Setia et al., 2015), agency theory (Frias-Aceituno et al., 2014; García-Sánchez & Noguera-Gámez, 2017), and institutional theory (Laineenoja 2019; Stubbs et al., 2014). These results are also following the results obtained by Speziale (2019).

Although agency, stakeholder, legitimacy, and institutional theories are commonly used in IR research, some criticisms arose and became a potential theoretical gap. Legitimacy theory has been criticized for three reasons (Chikutuma, 2019). First, through legitimacy theory, entities tend only to provide good news and hide negative information to increase their legitimacy (Chan et al.,

2014). Second, entities tend to focus more on image enhancement than accountability (Cho et al., 2015). Third, this theory does not explain why entities disclose selective news (Fernando & Lawrence, 2014). Stakeholder theory is a theory that is far from reality. Chikutuma (2019) stated that it is a challenging concept to grasp when the organization is attempting to address the needs of all stakeholders, while each stakeholder's interests are distinct (Fernando & Lawrence, 2014). Agency theory, when underpinning IR, has been criticized for lack of consideration in social and environmental disclosures (Chikutuma, 2019). Agency theory focuses primarily on financial stakeholders who are not beneficiaries of social and environmental exposure (Parker, 2005). The institutional theory also received criticism from Chikutuma (2019) for almost the same reasons as the agency theory. The institutional theory focuses more on how the organization shows itself to external parties and not how a company will change its thought process.

The author further explored the criticism of classical theories and found a relationship between stakeholder, legitimacy, and institutional theories. There are only slight differences between stakeholder, legitimacy, and institutional theories because they depart from the same theoretical source, namely political economy theory (Chikutuma, 2019). The political economy theory explains that politics, society, and economics cannot be separated (Fernando & Lawrence, 2014).

The theory of political economy, stakeholders, and legitimacy must be interpreted widely as the power of the social environment that can pressure the organization to make the disclosure. On the other hand, it is interpreted as the eagerness of the organization to reveal the information (especially regarding social and environmental accountability) to legitimize, fend off criticism, and control the debate obtained from its social environment (Gray et al., 1996). The explanation of Gray et al. (1996) about political economy theory is in line with the definition of institutional theory. The institutional theory explains how organizations adopt new structures and practices from other organizations to meet stakeholder expectations and gain legitimacy from their external environment (Dimaggio & Powell, 1983). The findings of Gray et al. (1996) and Dimaggio and Powell (1983) confirm Chikutuma's (2019) assertion that there are only minor distinctions between stakeholder, legitimacy, and institutional theories because they all stem from the same theoretical source, namely political economy theory. When describing a company's acceptance of a new policy, the institutional theory is more suitable, mainly if the policy includes social and environmental issues. Based on the aforementioned explanation, the institutional theory is deemed the most relevant theory when explaining the sustainability embeddedness of integrated reporting as a new paradigm of disclosure and a new policy for the organization.

The institutional isomorphism theory describes how an organization meets stakeholder expectations and achieves legitimacy in three ways. They are coercive, mimetic, and normative isomorphism. Government and shareholders are stakeholders with the coercive power, so political connection and foreign ownership are the variables formulated to provide coercive pressure. Although the political system is hypothesized to affect IR (Fasan et al., 2016), the political connection variable has never been investigated for its influence on IR. The previous sentence is understandable because there has not been much research linking political connections and companies' voluntary disclosure (Dicko et al., 2019). Political connections hypothesized to affect the adoption of SE of IR become the novelty of this research. In addition to the government, the foreign institution is also believed to have a significant coercive impact (Amran & Haniffa, 2011). Firms with foreign ownership are more likely to have information asymmetry due to geographic, cultural, and linguistic barriers. The fact that there are obstacles created due to differences in countries makes foreign investors demand companies disclose more information (Mandalika et al., 2019; Mateescu, 2014). Thus, the greater the level of foreign ownership in a company, the more coercive power to disclose its performance (Amran & Haniffa, 2011).

Mimetic isomorphism is defined as an action driven by imitating other organizations. A company tends to mimic the policies of other companies in the same industry sector (Fernandez-Feijoo et al., 2019). The implementation of IR by a company in a particular industrial sector will usually be

followed by other companies in the same sector (Van & Wild, 2013). The parent company is also the party that allows its subsidiaries to mimic its policies. The parent company functions similarly to a shadow director (Li, 2010). According to Amran and Haniffa (2011), it is a common practice when a subsidiary company adopts its parent company's disclosure policy. Kolbel et al. (2018) assert that companies with environmental and social impacts attract shareholders better.

The activity of a company when it follows a framework or guidelines that become benchmarks or standards is known as normative isomorphism (Bini & Bellucci, 2020). Participation in the sustainability award program (Gunarathne & Senaratne, 2018) and the membership of the company's board of directors in professional associations (Jahan et al., 2021) are regarded as the company's normative practice. Education, experience, professional training, and membership in professional organizations can help company board members earn the title of professional (Arshad et al., 2013; Darus & Janggu, 2016; Saheed Olanrewaju et al., 2020; Scott & Shuttleworth, 2007; Shanmugam, 2017). Company board members with professional backgrounds are expected to think differently about social and environmental disclosure, mainly because they have a knowledge of sustainability issues (Darus & Janggu, 2016). A greater tendency for the level of adoption of IR is also found in companies that participate in the sustainable reporting awards programs (Gunarathne & Senaratne, 2018; Kurniawan & Wahyuni, 2018; Stent & Dowler, 2015).

This research's contributions can be described as follows: (1) The originality of the basic theoretical model is found in the grand theory selection process. The responses to classical theories' criticisms lead to the institutional isomorphism theory as the major theory of this research; (2) The political connection as coercive power to SE of IR adoption has never been discussed in previous studies. But theoretically, this variable can be formulated and become the novelty of this research; (3) Foreign ownership is empirically proven to affect the quality of sustainability reporting (SR; Amran & Haniffa, 2011) and corporate social responsibility reporting (CSR; Al-Gamrh et al., 2020). However, this research hypothesis states that foreign ownership influences SE of IR and not SR or CSR; (4) Previous studies did not distinguish whether the parent company is from developed or developing countries (Bananuka et al., 2019; Senaratne, 2017). Meanwhile, this study indicates parent companies based on the Human Development Index Ranking (HDIR) made by the United Nations; (6) The formulation of board professionalism indicators used by previous studies is very diverse. However, the research that uses indicators of member affiliation in accounting associations then be linked with SE of IR adoption has not been found, and becomes the novelty of this study; (7) To test the robustness, the control variables are added. Firm size, profitability, and leverage are the selected control variables. The univariate analysis will also complement this research. The goal is to see if the results match the primary multivariate regression analysis.

As a reader's illustration, this article begins with the introduction, then followed by a theoretical framework and the creation of hypotheses. The following section is the research method, which consists of sample selection, data analysis, and operational variables. The results are described descriptively and inferentially in the next chapter, which is followed by conclusions, limitations, and future research ideas.

2. Theoretical framework

2.1. Sustainability embeddedness of integrated reporting

Integrated reporting is promoted by the International Integrated Reporting Committee (IIRC) as a brief communication on how an organization's strategy, governance, performance, and prospects lead to short, medium, and long-term value creation (IIRC, 2011). The significant difference between IR and conventional corporate reporting lies in developing integrated thinking at a strategic level by instilling a shared holistic vision among all teams and departments (Mazars, 2018). Integrated reporting is a "one for all report" that replaces stand-alone financial reports, corporate governance reports, corporate social responsibility reports, and sustainability reports (Mio & Vendrame, 2018).

The sustainability embeddedness of IR (SE of IR) can be divided into three-dimensional definitions to measure ecological, social, and economic performance. More importantly, it shows the links between these three dimensions. The concept of SE is considered the basis for producing IR. The reason is that IR must demonstrate how sustainability is integrated into the business's daily operations, choices, strategies, policies, and behavior. Corporate reporting and practices must be inextricably linked to sustainability (Elmaghrabi, 2014). As a result, the stronger the embeddedness of sustainability inside corporate activities, the better the integration of information systems for corporate reports and decision-making (Druckman, 2013). Ten elements become the indicator of SE of IR. Each of these elements has its sub-elements (Elmaghrabi, 2014).

2.2. Institutional theory

The institutional theory explains how organizations adopt structures and practices similar to other organizations to meet stakeholder expectations and gain legitimacy from their external environment (Dimaggio & Powell, 1983). This adoption process can be explained through two types of institutional theory. First, organizations truly adopt what they believe society expects from them, leading to institutional diffusion isomorphism. Second, when adoption to institutional pressures conflicts with internal efficiency needs, organizations sometimes claim they have adopted when they have not. What happens is that they separate practices and structures that are declared to have been adopted to maintain organizational efficiency. It leads to institutional decoupling (Greenwood et al., 2018). Institutional isomorphism was promoted by Dimaggio and Powell (1983), while institutional decoupling was promoted by Meyer and Rowan (1977).

There are three types of institutional isomorphism. First is coercive isomorphism, when an organization adopts a new policy in response to pressure from other organizations, both formally and informally. The second is mimetic isomorphism, which occurs when an organization follows other organizations' activities, especially when the organization is in uncertain condition. The third is normative isomorphism, associated with professionalism. The same education and training instill the same professional values about what is considered appropriate to be brought into the organization (Greenwood et al., 2018). In this study, the theory of institutional isomorphism is defined as variables that coerce, provide examples, and provide professional standards to encourage companies to adopt integrated reporting as a new reporting policy.

2.3. Political connection

North (1990) explained the theory of political connections as a relationship between politicians and companies to achieve certain political agendas. The practice of political connections in Indonesia is easy to find. Aidulyah et al. (2020) found that as many as 55% of Indonesia's People's Representative Council members are business people. This fact illustrated the potential oligarchy in Indonesia's political system. The practice of oligarchy is represented by the strong relationship between the business world and the political and government elites. Although oligarchy and political connections have many negative connotations and a higher level of risk, Wahab et al. (2011) found that politically connected firms have better corporate governance, even with higher audit fees.

Although the Indonesian government does not specifically regulate the practice of political connections in listed companies in Indonesia. Financial Services Authority Regulation 12/POJK.1/2017 regulated which parties are included in the Politically Exposed Person (PEP). Politically Exposed Persons (PEP) are people who are given the authority to perform essential functions by the state. The PEP includes the heads of state or government, senior politicians, senior government officials, military or law enforcement officials, senior executives in state-owned companies, and principal officials in political parties (Otoritas Jasa Keuangan, 2017). The Indonesian government is currently starting to show seriousness in responding to integrated reporting trends through the Financial Reporting Bill 2020 (Ikatan Akuntan Indonesia, 2020), so this study aims to see whether politically connected companies also respond to the seriousness of the government.

2.4. Foreign ownership

Foreign ownership is described as the proportion of ownership of foreign shareholders (originating from outside the country where the company is located) compared to the company's total shares. Cultural differences between countries result in different monitoring mechanisms between foreign and domestic investors. Foreign investors from countries with strong investor protection demand companies improve their governance. On the other hand, domestic investors negatively influence corporate governance practices, especially for companies located in countries with weak investor protection (Aggarwal et al., 2011). Foreign investors better monitor managers for innovative activities (Shin & Park, 2020). Foreign investors provide greater expectations for companies to disclose social and environmental information voluntarily and broadly. Although foreign investors do not always have control over the company, they can influence its strategic decisions related to social and environmental issues (Correa-Garcia et al., 2020).

2.5. Environmentally sensitive industries

There are various types of companies in the stock market. The Indonesia Stock Exchange (IDX) recognizes nine industrial sectors for listed companies. Including the farming, mining, basic and chemical industries, various industries, consumer goods, property, infrastructure, finance, and trade and services. Meanwhile, IIRC categorizes companies into thirteen industrial sectors: financial services, professional services, consumer goods, consumer services, industry, utilities, basic materials, health, public sector, oil and gas, real estate, technology, and telecommunications (Reindl, 2016).

Companies can also be distinguished based on their sensitivity to environmental issues. Metal mining, oil and gas, paper, chemical and associated products, power, gas, and sanitation services are among the environmentally sensitive sectors (Stolowy & Paugam, 2018). Companies engaged in industrial, plantation, and property products, according to Othman et al. (2011), are environmentally sensitive. The measurement for environmentally sensitive variables in this study is by dummy variable. A value of 1 is given to companies belonging to the environmentally sensitive industrial sector (plantation, mining, basic and chemical industry, property, and infrastructure), and 0 if they are included in the non environmentally sensitive sector (consumption, finance, and service sectors).

2.6. Parent company

The parent company is a business entity that regulates one or more other companies. There is a subordination relationship between the parent company and the subsidiary, where the parent forms a subsidiary to expand its business (Somadiyono, 2021). The parent company provides several types of competencies to subsidiaries and allows autonomous management, but on the other hand, it also carries out various monitoring activities for subsidiary companies (Fukuda et al., 2018). It is natural for a subsidiary company to emulate the parent company's practices, including sustainability reporting. As a result, the parent company's domicile is crucial in determining the impact of sustainability reporting practices. If the parent company is based in a country with highly valued environmental and social impacts, the subsidiary is expected to follow suit (Amran & Haniffa, 2011). Gunnar Miller, Head of Equity Research for RCM-Allianz Global Investors, stated that using the standards set by the parent company will make the subsidiaries feel that they have implemented best practices in reporting their external performance (Eccles & Krzus, 2010).

2.7. Award

The award given to the company illustrates that the company is the best in following specific benchmarks or standards. Indonesia has a sustainable reporting award event called the Asia Sustainability Reporting Rating (ASRR; Samuel et al., 2019). Asia Sustainability Reporting Rating (ASRR) was proclaimed by National Center for Sustainability Reporting (NCSR). Besides NCSR, the foundation that cares about the sustainability reporting of companies in Indonesia is the Indonesian Biodiversity Foundation (Kehati). The Kehati Foundation, in collaboration with the IDX twice a year, determines the 25 shares of listed companies that are considered the top in the

principles of sustainability, finance, good governance, and concern for the environment to be included in an index called Kehati. The Kehati index is the first green investment index in ASEAN (Yayasan Kehati, 2009).

The number of companies participating in sustainable report award events in Indonesia is experiencing a positive trend (Wardhani & Hamidah, 2019). This phenomenon is because more companies are aware that financial and technological aspects alone will not maintain their competitive advantage in the long term. Social responsibility and environmental protection as the core of the modern sustainability concept are essential to gain the legitimacy of stakeholders in maintaining the company's competitive advantage. A sustainable strategy effectively seizes more opportunities, competitive advantage, long-term interests, and an excellent corporate image (Li & Mu, 2017).

2.8. Board professionalism

Board professionalism is defined as experience or special education related to areas that must be mastered by board members (Amran & Haniffa, 2011). Some researchers define board professionalism as board member affiliation in accounting and finance professional associations (Arshad et al., 2013; Xie et al., 2003; Yeh et al., 2014). The existence of professionalism is expected to support a strong understanding of business operations (Meilani et al., 2014). Managers in multinational companies with affiliates in countries that value CSR will have a higher awareness of the practice of sustainability reporting. By the proposition of institutional theory that employees can be diffusion agents.

3. Empirical literature review and hypothesis development

3.1. Political connection and SE of IR adoption

The country's political system coerces the companies to adopt a new policy (Fasan, 2016). Companies can take advantage of the political system when they have close social relations with the government to achieve their goals or interests (Sun, 2012). The social relationship between companies and the government is called a political connection. Since no research on the influence of political connection on the adoption of IR has ever been done, the political connection variable becomes the research's novelty. Dicko et al. (2019) claim that politically connected companies provide more voluntary disclosure to access some particular resources. The political connection can exacerbate information asymmetry and increase the risk for minority shareholders (Dicko, 2017); hence companies will be encouraged to make voluntary disclosures as a form of compensation (Healy & Palepu, 2001).

H1: Political connection positively influences the SE of IR adoption rate

3.2. Foreign ownership and SE of IR adoption

Coercive mechanisms come from institutions outside the organization (Berger & Luckman, 1967). Dragu and Tiron-Tudor (2013) observed that external culture and economy are the factors that can influence the adoption of <IR>. Of course, foreign investors who come from outside the country where the company is located have a different culture from the country's culture. The foreign ownership structure may create a legitimacy gap. Shareholders from different countries may demand broader disclosure due to geographical distance limiting shareholder oversight mechanisms (Haniffa & Cooke, 2005). They tend to require more social, economic, and environmental information (Mandalika et al., 2019). Al-Gamr et al. (2020) stated that foreign investors with long-term investment horizons tend to pay attention to corporate social behavior as a consideration in making investment decisions since it is related to its long-term survival. Furthermore, foreign investors from developed countries are considered to have more attention to the company's

sustainability responsibility practices because of a higher level of awareness about the social and environmental problems and their consequences.

H2: Foreign ownership positively influences the SE of IR adoption rate

3.3. Environmentally sensitive industries and SE of IR adoption

Mimetic isomorphism occurs when an organization carries out its operations “going with the flow” pattern. The company carries out mimetic practices by thoroughly imitating the practices of other companies that are considered successful. The sampled companies are usually in a similar line of business or industry (Haji & Anifowose, 2017). A company’s industrial affiliation determines the quality of integrated reporting (Haji & Anifowose, 2017; Rivera-Arrubla et al., 2017; Roman et al., 2019). Specifically, Gerwanski (2020) revealed that companies operating in environmentally sensitive sectors and the financial industry tend to provide better-integrated reports. The oil and gas sector (energy) is known to be one of the leading industrial sectors in corporate social responsibility (Frynas, 2010) and sustainability performance practice (Marimon et al., 2012). Bachoo et al. (2013) found that the relationship between sustainability reports and firm value was only concentrated in companies in the industrial sector (mining and basic industry). The plantation, mining, basic and chemical industries, various industries, property, and infrastructure are assumed to be environmentally sensitive while the consumption, finance, trade, and service sectors are assumed to be environmentally insensitive (Othman et al., 2011; Stolowy & Paugam, 2018).

H3: Environmentally sensitive industry influences the SE of IR adoption rate

3.4. Parent company and SE of IR adoption

Local companies that are increasingly globalized will follow or imitate other successful international companies to be accepted as part of a multinational fraternity. This action is essential to maintain their image and ensure their survival. The parent company is the closest international company whose practice can be followed by a subsidiary. Subsidiary companies tend to adopt accounting practices and a reporting culture compatible with their parent company because the parent and subsidiary companies will have the same mission and policies, including sustainability reporting (Amran & Haniffa, 2011). Subsidiary companies are more likely to receive better training on accounting techniques than their parent companies, so they tend to perform better-integrated disclosures (Indrawati et al., 2017). The explanation above shows how the parent company variable plays its mimetic mechanism.

H4: Parent company positively influences the SE of IR Adoption

3.5. Sustainability award and SE of IR adoption

In terms of IR adoption, normative isomorphism explains that firms adopt IR because they see IR as the “right thing to do” (Adhariani & Villiers, 2018). Normative isomorphism is the company’s actions when following the framework or rules that become benchmarks or standards (Bini & Bellucci, 2020). Participation in award events such as ASRA or the KEHATI index provides a good opportunity to improve the company’s reputation. Haniffa and Cooke (2005) mention several factors that can enhance a company’s corporate social disclosure quality, including legal demands, environmental pressures, investor pressure, participation in certain awards or programs, media interests, political interests, and public awareness.

Companies are always looking for ways to improve their image, and one of the prominent strategies is to win awards. The award recognizes the winner and proves their compliance with the award criteria, in this case regarding sustainability reporting (Amran & Haniffa, 2011). Firmani

(2013) found a significant difference in financial performance before and after participating in the sustainability performance award. Sustainability performance rankings and various award events make a lot of sense in encouraging companies' interest in the systematic improvement of the quality of sustainability reports (Daub, 2007).

H5: Sustainability award participation positively influences the SE of IR adoption

3.6. Board professionalism and SE of IR adoption

Another source of normative isomorphism is professionalization. Professionalization is the effort of members of a collective group to achieve standard performance (Amran & Haniffa, 2011). Board members with professional backgrounds are better to assist companies in analyzing and understanding the complex environment in which the company operates. One aspect of this complexity is related to the management of the organization's responsiveness to the needs of various stakeholders, which are the company's responsibility (Rehli & Jager, 2016).

Board members with professional backgrounds are expected to perform well to maintain and enhance their reputation. The reputation of professionally qualified board members is tied to their membership in professional bodies. In general, they are obligated to comply with their professional commitments and are more likely to direct their organizations to engage in activities they deem accountable (Arshad et al., 2013). Sari (2017) and Janggu et al. (2014) found that the board's professionalism influences the quality of sustainability reporting. The professional qualifications of board members make them enable to make better decisions (Xie et al., 2003; Yeh et al., 2014)

H6: Board professionalism positively influences the SE of IR Adoption

4. Research design

4.1. Data source

This study used purposive sampling. Three hundred twenty-two companies passed the test and yielded a total of 1932 data. All companies listed on the Indonesia Stock Exchange from 2014 to 2019 were included

in the research population. The year 2014 was chosen as the starting point because the IR framework was established in 2013, and it is hoped

that the organization will be ready to implement it in 2014. Due to the advent of the covid-19 pandemic in 2020, 2019 was chosen as the final year to minimize prejudice. Since covid-19 makes Indonesia witness economic shocks in 2020, including the collapse of several businesses and companies and severe disruption in several fields (Caraka et al., 2020), it is afraid of generating data abnormalities if 2020 corporate data is used. The following table shows the chronology of sample selection.

5. Data analysis

Descriptive statistical tests, multivariate ordinary least square regression, and backward multivariate regression were carried out in this study to examine the effect of independent and control variables on the SE of IR adoption rate in Indonesian public companies. In addition to the main test, additional testing is also carried out in order to carry out a robustness test. Additional testing was carried out through the univariate analysis.

Before further testing is carried out, the study begins by detecting the presence or absence of outliers in the data used through boxplot detection, Cook's, and Mahalanobis Distance. The test

was continued by testing the classical assumptions, namely normality, linearity, multicollinearity, and homoscedasticity tests. It is known that through the Monte-Carlo test, the data used in this study passed the normality test with a Monte Carlo p-value of $0.086 > 0.05$. The linearity test is done by looking at the P-P plot. The results of the P-P plots showed that the relationship between the dependent variable and the independent variable is linear. The multicollinearity test was carried out by looking at the VIF and Tolerance values and the correlation matrix. All independent and control variables in this study had a tolerance score above 0.10 and a VIF score below 10, which means that all predictor variables do not influence each other. Likewise, the correlation matrix shows that all predictor variables have a correlation level below 0.80.

Based on the results of the Glejser test, it is known that all variables are also free from heteroscedasticity problems. All variables already have a significant result above 0.05 in the Glejser test. The scatterplot also showed that the points are spread above and below the Y axis and do not show a certain pattern (widening, wavy, and narrowing). So it can be said that the data do not experience heteroscedasticity problems.

After all the data and variables are confirmed to meet all the assumptions that are the requirements for performing ordinary least square (OLS) regression, then hypothesis testing can be started with the following model:

$$SE = \alpha + \beta_1PC + \beta_2FO + \beta_3ES + \beta_4PR + \beta_5AW + \beta_6BP + \beta_7SIZE + \beta_8ROE + \beta_9DER + \epsilon \quad (1)$$

5.1. Operational definition of variables

This study involved six independent and three control variables in analyzing their influence on SE of IR adoption. This research adopts the SE of IR adoption index developed by Elmaghrabi (2014). The SE of IR adoption index by Elmaghrabi (2014) has ten elements with thirty-four sub-elements. The detail of the elements and sub-elements will be explained in the descriptive statistical discussion. The control variables are assumed to represent the company's characteristics. The characteristics of a company will also determine whether the company chooses to be a leader or a follower in SE of IR adoption. Lopes and Coelho (2018) explained that the reference IR reporters are large companies with high market value, immense profitability, and low leverage. The company's characteristics can be presented as a mimetic isomorphism variable. Then firm size, profitability, and leverage are included in this study as control

Table 1. Graded sample selection criteria

	Total	
Population	761	761
Not consistently listed on IDX from 2014-2019	(319)	442
Not a subsidiary company	(7)	435
Inconsistency in issuing annual reports and sustainability reports	(102)	333
Not having complete data needed in variables	(11)	322
Total Observations = Total Companies x Total Years of Observation	322 x 6	1932

Source: **Processed data**

Table 2. Variable's operational definitions

	Variable	Proxy	Data Type
Dependent	SE of IR Adoption Level	The number of SE of IR elements disclosed is divided by the total number of SE of IR (Elmaghrabi, 2014)	Continuous (metric)
Independent	PC (Political Connection)	1 if major shareholders (owns at least 10% of the total shares) and the company's board of commissioner is politically connected; 0 if not politically connected (Datta & Ganguli, 2014; Hung et al., 2018)	Categorical (non-metric)
	FO (Foreign Ownership)	Foreign ownership ratio: the number of shares owned by the foreign shareholders divided by the total number of outstanding shares (Haniffa & Cooke, 2005).	Continuous (metric)
	ES (Environmentally Sensitive Industries)	1 if companies are included in the environmentally sensitive industrial sector (plantation, mining, basic and chemical industry, property and infrastructure), and 0 if they are included in the non-environmentally sensitive sector (consumption, finance and service sectors).	Categorical (non-metric)

(Continued)

Table 2. (Continued)

	Variable	Proxy	Data Type
	PR (Parent Company)	Dummy: 1 if the country of origin of the parent company is a developed country 0 if the country of origin of the parent company is a developing country The classification of developed countries refers to the Human Development Index Ranking (HDIR) made by the United Nations Development Program. Twenty countries have the highest HDIR and can be classified as developed countries. These countries are Norway, Ireland, Switzerland, China, Iceland, Germany, Sweden, Australia, Netherlands, Denmark, Finland, Singapore, UK, Belgium, New Zealand, Canada, America, Austria, Israel, and Japan (United Nations Development Programme, 2020)	Categorical (non-metric)
	AW (Award)	Dummy: 1 if the company is listed in the Kehati index or is the winner of the Asia Sustainability Reporting Award (ASRA). 0 if the company is not listed in the Kehati index or is a winner of the Asia Sustainability Reporting Award (ASRA).	Categorical (non-metric)
	BP (Board Professionalism)	Board professionalism ratio: the number of members of the board of directors associated with the professional accounting association divided by the total number of board members (Arshad et al., 2013).	Continuous (metric)
Control			
	SIZE	Log Total Asset	Continuous
	ROE (Profitability)	ROE = Profit after tax/ Total Equity	Continuous (metric)
	DER (Leverage)	DER = Long term debt/ Total Equity	Continuous (metric)

Table 3. Descriptive statistic of SE of IR

	Total Sample (n = 1932)					Environmentally-Sensitive Industries (n = 972)					Non Environmentally Sensitive Industries (n = 960)					t-value	
	Mean	Std.Dev	Min	Max		Mean	Std.Dev	Min	Max		Mean	Std.Dev	Min	Max		Sig.	
Total SE Index	43.35	7.814	24.4	76.7		43.03	7.631	24	77		43.67	7.987	21	71		.073	
SE1	42.54	9.271	5.9	77.8		42.43	8.830	6	94		42.65	9.70	6	100		.586	
SE2	51.02	15.62	0	80.8		48.89	14.72	0	74		53.15	16.49	0	91		.000	
SE3	49.20	18.24	0	100		48.10	18.42	0	100		50.30	18.06	0	100		.031	
SE4	39.03	15.71	0	78.7		37.44	15.42	11	78		40.62	15.93	0	78		.001	
SE5	39.80	18.70	0	90.9		39.61	19.23	9	91		39.99	18.16	0	82		.651	
SE6	48.76	16.40	15.8	100		47.78	15.94	16	79		49.74	16.76	0	100		.008	
SE7	31.73	7.40	0	37.5		31.30	7.20	13	38		32.16	7.55	0	38		.062	
SE8	45.66	4.51	44.4	88.9		46.81	4.9	44	89		44.51	40.45	44	78		.016	
SE9	47.21	15.60	27.3	70.8		46.71	15.01	27	71		47.71	18.92	14	80		.271	
SE10	40.71	6.79	20.1	77.8		41.23	7.11	18	80		40.19	10.3	15	84		.027	

Source: Processed data

variables. Table 1 provides the detail of graded sample selection criterias, while Table 2 provides a more detailed summary of the variable's operational definitions.

6. Empirical findings and discussion

6.1. Descriptive statistics of the variables

The adoption rate of SE of IR for public companies in Indonesia can be seen in Table 3, and the total adoption rate is reported to be 43.35%. The total adoption of SE of IR for environmentally sensitive companies is 43.03% and for non-environmentally sensitive companies is 43.67%. SE1 contains the commitment of the company's board in terms of sustainability. SE1 includes three indicators: the corporate board's written commitment to sustainability concerns, the existence of an audit committee or a sustainability committee, and sustainability issues in the company's vision and mission. The average of SE1 is 42.54% for the total sample, 42.43% for environmentally sensitive companies, and 42.65% for non-environmentally sensitive companies. There is no significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.586.

SE2 contains an understanding of crucial sustainability drivers for companies consisting of nine indicators. The nine indicators are (1) identification of materiality in sustainability reporting; (2) implications of sustainability issues on financial reporting and company operations; (3) identification of the terminology of sustainability, corporate responsibility, and CSR for the company; (4) involving environmental and social issues in the company's strategy, operations and policies; (5) identification the stakeholders in the company and the engagement process carried out; (6) investor engagement; (7) C-Level engagement; (8) suppliers engagement; and (9) other stakeholder engagement. The mean of SE2 for the total sample values 51.02%, for environmentally sensitive companies 48.89%, and for non-environmentally sensitive companies 53.25%. There is a significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies with a p-value of t-test 0.000.

SE3 is an element of SE that discusses the process of integrating the key sustainability drivers into the company's strategy. This third SE element has four indicators, namely (1) key sustainability drivers contained and reflected in the business strategy; (2) the relationship between sustainability and the company's business cases; (3) qualitative and quantitative company goals and targets; and (4) commitment to sustainability rules by the community. The mean of SE3 is 49.20% for the total sample, 48.10% for environmentally sensitive, and 50.30% for non-environmentally sensitive companies. There is a significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.031.

E4 is an element created to ensure that sustainability issues are the responsibility of all parties within the company. SE4 consists of two indicators: (1) employee involvement in sustainability issues; and (2) management's commitment to achieving sustainability goals. The mean of SE4 is 39.03% for the total sample, 37.44% for environmentally sensitive, and 40.62% for non-environmentally sensitive companies. There is a significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.001.

Breaking down the organization's sustainability goals to its various subsidiaries and departments is the single indicator in SE5. The average of SE5 is 39.80% for the total sample, 39.61% for environmentally sensitive companies, and 39.99% for non-environmentally sensitive companies. There is no significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.651.

The mean of SE6 is 48.76% for the total sample, 47.78% for environmentally sensitive, and 49.74% for non-environmentally sensitive companies. There is a significant difference between the

mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.008. SE6 has four indicators, namely (1) product sustainability standards; (2) product sustainability performance; (3) suppliers' sustainability management practices; and (4) product sustainability performance improvement.

SE7 discusses effective and extensive sustainability training. Employee training on sustainability and increasing employee awareness of sustainability issues are two indicators in SE7. The average adoption rate of public companies with the total sample is 31.73%, 31.30% for environmentally sensitive companies, and 32.16% for non-environmentally sensitive companies. There is a significant difference between the mean value of environmentally sensitive and non-environmentally sensitive companies, with a p-value of t-test 0.062.

SE8 also has two indicators, firstly, sustainability is part of the assessment and remuneration, and secondly, sustainability is part of employee promotion. The average value for the total sample is 45.66%, for environmentally sensitive is 46.81%, and for non-environmentally sensitive is 44.51%.

SE9, which discusses the supportive program and celebration of sustainability, has only one indicator, namely showcasing the success of its sustainability practices to encourage future practices and innovation. The average value for the total sample is 45.66%, for environmentally sensitive is 46.81%, and for non-environmentally sensitive is 44.51%. The difference in the mean shows a non-significant result.

SE10 is the last element of the SE of IR index. Having six indicators, this element discusses monitoring and reporting on sustainability performance. The six indicators are (1) integrating sustainability measurement into KPIs; (2) reporting on energy efficiency and emissions; (3) reporting waste; (4) reporting water use; (5) reporting the use of limited resources; and (6) reporting progress related to the progress of achieving the sustainability target. The average value for the total sample is 40.71%, environmentally sensitive is 41.23%, and non-environmentally sensitive is 40.19%. The difference in the mean shows a significant result.

Table 4 describes descriptive statistics of continuous variables, while Figure 1 describes the descriptive statistics of categorical variables. Based on Table 4, it is known that the average foreign ownership in Indonesia is 25%, the average company size is 15.35 (when expressed in rupiah, it is in the range of 4 trillion rupiahs), the average profitability is 6%, and the average of leverage is 179%.

6.2. Multivariate analysis

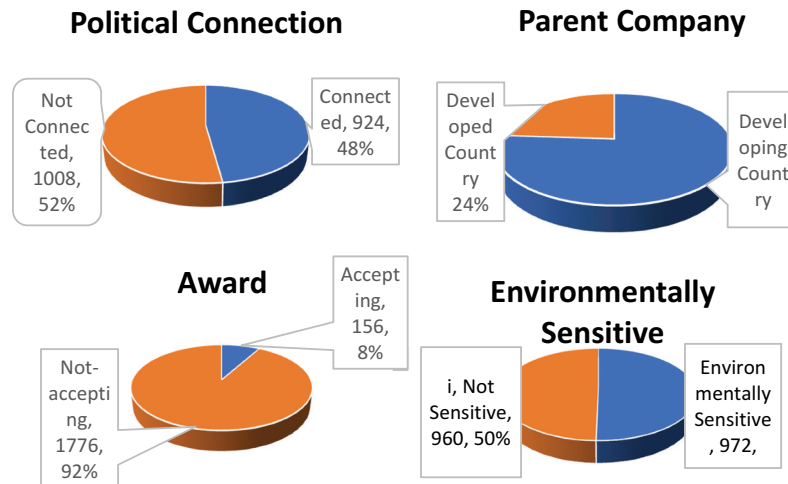
The test of the effect of predictor variables on SE in this study was carried out with multivariate backward regression (Table 5). Model 1 is carried out by involving all predictor variables. The coercive isomorphism represented by the variables of political connection and foreign ownership is proven to have a convincing effect on the level of SE of IR adoption of public companies in Indonesia. The significance for the political connection variable is 0.00, while the significance for foreign ownership is 0.27. Both showed a highly significant effect. Mimetic isomorphism in model 1 represented by the parent company variable could not show the significance of the results (p-value: 0.191). Non environmentally sensitive companies significantly adopt the SE of IR better than environmentally sensitive companies. The normative isomorphism described by the award variable and the board's professionalism in model 1 also shows a highly significant result (p-value: 0.000). While as control variables, only size has a highly significant result. The moderate significance is obtained by profitability, while there is no significant effect of leverage on the SE of IR.

Model 2 eliminates the leverage variable because the leverage in model 1 shows insignificant results. The results of model 2 are consistent with model 1. All the independent variables show results with the same significance as model 1. Coercive and normative isomorphism represented

Table 4. Descriptive statistic of continuous predictor variables

Variables	Type	Mean	Median	Std. Dev	Max	Min
Foreign Ownership	Independent	0.25	0.12	0.29	0.99	0.00
Board Professionalism	Independent	0.012	0.00	0.051	0.43	0.00
Size (LN of Total Asset)	Control	15.35	15.18	1.94	21.00	8.56
Profitability (ROE)	Control	0.06	0.07	0.56	7.9	-11.57
Leverage (DER)	Control	1.79	0.89	4.16	123.15	-17.62

Figure 1. Descriptive statistic of categorical predictor variables.



by the variables of political connection, foreign ownership, awards, and board professionalism can still convincingly influence the level of SE of IR adoption. At the same time, mimetic isomorphism represented by the parent company has not shown significant results in model 2, consistent with the result of model 1. Environmentally sensitive/non-sensitive industrial sectors also consistently have a significant effect in a negative direction in model 2. A slight increase of significance occurs in the profitability variable. Model 2 improved profitability's significance from moderate significant (p-value: 0.56) to highly significant (p-value: 0.31).

Model 3 is carried out by eliminating profitability since there are different results in the profitability variables of models 1 and 2. By removing the variables of leverage and profitability, the results for the independent variables are still the same for models 1, 2, and 3. A slight decrease in adjusted r2 occurs in model 3. While models 1 and 2 both show an adjusted R2 of 20.9%, model 3 shows an adjusted R2 of 20.7%.

Model 4 is done by removing the parent company. The parent company is the only independent variable known not to affect the SE of IR. Eliminating the parent company variable did not make a difference between models 3 and 4. All independent and control variables were proven robust with the same significant results and the adjusted R2 results. Models 3 and 4 were both at 20.7%.

Model 5 results from multivariate regression for environmentally sensitive companies with all variables involved. The power of government through political connections is a coercive power that encourages environmentally sensitive companies to adopt SE of IR (p-value = 0.000). Meanwhile, foreign ownership was unable to show its significance (p-value = 0.964). The parent company variable can not prove mimetic power (p-value = 0.513). Likewise, normative isomorphism can only be confirmed by the award variable. Meanwhile, for the control variable, consistent with the full set of results, only size significantly affects the level of SE of IR adoption of environmentally sensitive companies.

Models 6 to 10 are backward regressions for environmentally sensitive companies. It started by eliminating the control variables that have no effect and then removing the independent variables that have an effect one by one. The results between models 6 to 10 are consistent for all variables. Like model 6, models 7 to 10 prove that only political connection variables, awards, and company size significantly influence the adoption of SE of IR. The value of adjusted R2 for models 6 to 10 also did not change significantly. An increase of 1 point occurred on the 8th model, then another 1 point increase on the 9th and 10th models.

Table 5. Multivariate analysis of predictors variables to SE of IR

Variables	Variable Type	Prediction	Full-set	Full-set	Full-set	ES	ES	ES	ES	ES	ES	NES (10)	NES (11)	NES (12)
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			Sig	Sig	Sig	Sig.	Sig.	Sig.	Sig.	Sig.	Sig.	Sig.	Sig.	Sig.
Environmentally Sensitive Industries	Independent	+	-.006° ***	-.007° ***	-.005° ***	-.005° ***								
Political Connection	Independent	+	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.039***	.038***
Foreign Ownership	Independent	+	.027***	.025***	.016***	.003***	.964	.934	.917	.856			.010***	.010***
Parent Company	Independent	+	.191	.194	.259	.513	.516	.467	.471				.031***	.031***
Board Professionalism	Independent	+	.000***	.000***	.000***	.000***	.882	.872					.000***	.000***
Award	Independent	+	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.051**	.052**
Size	Control	+	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***
Profitability	Control	+	.056**	.031***		.819	.597						.029***	.030***
Leverage	Control	+	.598			.103							.835	
		Coef:	.311	.311	.310	.311	.344	.343	.343	.342	.342	.342	.283	.283
		Adj.R2:	.209	.209	.207	.207	.206	.206	.207	.208	.208	.208	.245	.246
		F:	57.581	64.769	73.217	85.195	36.960	43.106	51.774	64.620	86.235	86.235	39.957	45.705
		Sig:	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000

Dependent Variable: IR. *** highly significant: < 0.01, **significant: < 0.05, *moderately significant: <0.10, ° is the symbol for the results with different directions different from the hypothesis

Table 6. Independent sample t-test of categorical variables

Variabel	SE of IR Means	n	Std. Dev	Min	Max
Non-politically Connected	0.5168	1008	0.07483	0.178	0.689
Politically Connected	0.5517	924	0.07765	0.178	0.767
T-test P-value	0.000***				
Developing Countries Parent Company	0.5312	1470	0.07917	0.178	0.767
Developed Countries Parent Company	0.5409	462	0.7439	0.178	0.711
T-test P-value	0.020***				
Non-Award Company	0.5271	1776	0.07538	0.178	0.767
Award Company	0.6064	156	0.07198	0.289	0.767
T-test P-value	0.000***				
Environmentally-Sensitive Industries	0.43034	972	0.076312	0.178	0.767
Non Environmentally-Sensitive Industries	0.43672	960	0.079870	0.211	0.711
T-test P-value	0.073*				

Model 11 shows different results from model 5. The willingness of environmentally insensitive companies to adopt SE of IR is influenced by all isomorphism variables formulated in this study. Political connections (p-value = 0.039), foreign ownership (p-value = 0.010), parent company (p-value = 0.031), board professionalism (p-value = 0.000), and awards (p-value = 0.051) all showed highly significant results. For control variables, size and profitability showed an effect, but not for leverage.

Model 12 is a backward regression for environmentally insensitive companies. Because the results of model 11 show that only one variable is not significant, then the backward regression is only done once. The results of model 12 are consistent with model 11; all variables do not show a significant change in t-value. Likewise, for the adjusted R² value.

7. Univariate test

There are four categorical variables among the nine predictor variables in this study: political connection, environmentally sensitive industry, parent company, and award. Univariate testing was used to see how robust each categorical variable affected the SE of IR adoption rate. The independent sample t-test was conducted to convince the robustness of the model, and the results can be seen in [Table 6](#).

The number of listed companies in Indonesia that are politically connected is high enough (924 vs 1008). The SE of IR adoption rate for politically connected and non-politically connected companies is significantly different. Companies with political connections adopt SE of IR on a higher average than non-connected ones. Politically connected companies also tend to express SE of IR elements more optimally, evidenced by a higher maximum score of SE of IR adoption.

Companies with developed countries' parent companies have a higher trend of SE of IR adoption rates than companies with parent companies from developing countries. The difference is highly significant, with p-value 0.020. The number of companies with developed countries' parent companies is not so many, only 462 or about 26.67% of the total sample.

Not many companies get awards in the field of sustainability reporting in Indonesia. In this study, only 156 companies received ASRA awards and/or were listed on the Sri-Kehati index. However, awarded companies adopted a significantly higher rate of SE of IR than the non-awarded companies. The averages differ significantly, 0.6064 for awarded companies and 0.5271 for non-awarded companies. This finding can be used as a basis for the argument that SE of IR is closely related to sustainability issues.

Based on their sensitivity to the environment, two types of industrial sectors showed significant results on univariate testing. The results of the t-value on the independent sample test were significant at the moderate level (0.073). But not as hypothesized, this study found that the non-environmentally sensitive industrial sector adopted the SE of IR more than the environmentally sensitive industrial sector. The number of sectors (3 sectors) and the number of companies (960 companies) classified as non-environmentally sensitive industries are fewer than environmentally sensitive ones (6 sectors and 972 companies). However, the average yield is still higher for non-environmentally sensitive industries. These results support the results of multivariate analysis. The model is proven to be robust.

8. Conclusion

Business and politics are still very closely related in Indonesia. Aidulsyah et al. (2020) stated that 55% of parliamentarians in Indonesia are business people. Politically connected companies get competitive advantages such as easy licensing, funding, and other conveniences (Niessen & Ruenzi, 2009). This fact is in line with the evidence in this study that the coercive pressure exerted by political connection at the SE of IR adoption level has proven very effective. The effective influence of this political connection applies to multivariate and univariate analysis. Companies

interested in accessing specific resources use two complementary strategies: political connections and extensive voluntary disclosure (Dicko et al., 2019). Political connection is used to gain some competitive advantage. Meanwhile, since the political connection can increase information asymmetry and risk for minority shareholders (Dicko, 2017), voluntary disclosures are published to reduce the information asymmetry (Healy & Palepu, 2001).

Foreign ownership is only effective on the full set and environmentally insensitive companies' models. However, it failed to show the effectiveness of the influence on environmentally sensitive companies. Theoretically, foreign shareholders from developed countries should demand more disclosure of social, economic, and environmental information (Mandalika et al., 2019). Vitolla et al. (2019) showed that companies operating in countries with less power distance, uncertainty avoidance, more collectivity, femininity, and indulgence focus more on sustainability, ethical issues, and good governance issues. So, companies from developed countries should offer a higher quality of IR. However, this study shows that foreign ownership from developed countries has not influenced SE of IR. Since the foreign ownership indicators in this study do not differentiate the country of origin of the foreign shareholders, the study cannot show satisfactory results. This finding is related to the majority sample not being from developed countries or not from South Africa as the country that pioneered <IR>.

The parent company has not been proven to affect the SE of IR for both full set data and environmentally sensitive company data. This finding is possible because the parent company indicator is the developed countries based on the Human Development Index Ranking (HDIR). Meanwhile, the developed countries have not compulsorily adopted IR. The early adopters of <IR> were South African, which were not included in the list of developed countries according to HDIR.

Board professionalism is proven to affect SE of IR on full set data and environmentally insensitive companies, but not proven on sensitive companies. The membership of the company's board in accounting professional associations should make them have superior performance (Darmadi, 2013). Professional qualifications give board members more exposure and rigorous training regarding corporate reporting (Amran & Haniffa, 2011). But in fact, membership in the professional association is only limited to inactive membership. The busyness of the managers in managing the company makes them passive in the activities of professional associations. As a result, membership alone does not ensure a board member's qualifications.

Across all models, the award has been demonstrated to impact the SE of IR significantly. Companies participating in the sustainability reporting award program understand that IR is the "right thing to do". This result is in line with (Adhariani & Villiers, 2018) findings, which found that the corporate reporting preparers are motivated to employ IR because it is the "right thing to do." This study can demonstrate normative isomorphism, which is reflected by the award variable.

One conclusion that deviates from what is hypothesized in this study is that companies in environmentally sensitive industrial sectors have a negative effect on the level of SE of IR adoption. This result aligns with Ong et al. (2016) and Othman et al. (2011). Environmentally sensitive companies in countries with poor and weak legal frameworks (especially when regulating environmental matters) report their non-financial performance is no better than non-environmentally sensitive companies. Non environmentally sensitive companies, especially in financial sectors, report better because they do "trust business", so they have to report all of their performance to get the creditor's trust.

9. Implications

9.1. Theoretical implications

This research is expected to provide a strong foundation for selecting theories in IR theme research. The selection of institutional theory as the basic theory was carried out carefully through

a literature mapping of the advantages and disadvantages of each mainstream theory. This study proved that the isomorphism mechanism in institutional theory is suitable for explaining the determinants of SE of IR adoption in Indonesian listed companies. Coercive, mimetic and normative isomorphisms equally contribute to explaining the SE of IR adoption level determinants.

9.2. Practical implications

To the evidence that political connection effect the adoption of IR significantly, the government proved to have an important role in IR adoption. The government's coercion power can be demonstrated by legitimizing the IR implementation regulations. The arrangements for integrated financial reporting in Financial Reporting Bill currently listed in the National Legislation Program (Prolegnas) 2020–2024 should be ratified immediately. The government should also regulate the protection mechanisms for all stakeholders and promote the social and environmental norms to increase sustainable and transparent business behavior. Furthermore, the government is expected to enact corporate political connections, assuming these political connections have consequences for a country's social and environmental balance.

Stakeholders who also have a very strategic role are the Indonesian Institute of Accountants. Indonesian Institute of Accountants should provide a basic framework for IR adoption in Indonesia. It is hoped that Indonesian companies can adopt IR easily and standardized, with an international framework from IIRC and a local framework from IAI. Furthermore, IAI can initiate the socialization, training, and award programs related to IR massively since the programs have responded well by the listed companies in Indonesia.

10. Limitation and future research

Some of the limitations of this study are (1) The different formats and language styles in the annual report make the content analysis process have a subjective nature, for example, in the content analysis of corporate governance elements. Some companies explicitly convey their governance performance in separate sub-chapters. Still, several others convey it implicitly and not in separate sub-chapters, (2) In measuring the board professionalism, this study does not control whether the board of directors' membership in the professional accounting associations is active or passive. The author only limits what is reported in the annual report, (3) In measuring political connections, this study does not control the indirect political connections. Indirect political connections can occur when family members, close friends, or relatives are politically exposed persons (PEP).

Some opportunities for future research in responding to this study's limitations are (1) This research is limited to listed companies in Indonesia. Using Indonesia as a research subject country is because this study raises the political connection variable. Indonesia is a developing country with an imperfect market and strong political-business connections (Aidulsyah et al., 2020; Fitriani, 2020). The characteristics of such companies are not only found in Indonesia. It is hoped that further research will be able to raise other countries with similar characteristics to broaden understanding, (2) Indirect political connections are not controlled in this study. Further research can control the variables of political connections, both direct and indirect, (3) The board of directors' activity in the accounting profession association was not controlled in this study. Further research needs to explore whether the membership of directors in professional associations is just a formality or not, (4) The adjusted R_2 in this study is 23.5%. The formulation of new variables that are still in the realm of institutional theory allows for an increase in adjusted R_2 . Given that foreign ownership did not result significantly, institutional ownership and state ownership may represent coercive isomorphism. Indonesian Institute of Accountants' socialization to listed companies about IR may be an additional variable for the mimetic isomorphism mechanism. The mimetic process will be seen from how much the IR adoption process imitates the socialization material provided by Indonesian Institute of Accountants. As for the normative isomorphism mechanism, the variables of sustainability committee and engagement with non-governmental environmental organizations may become the options.

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