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The Role of Sustainability Disclosure in Shaping the Performance of State-Owned Enterprises: An Indonesian Perspective

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Abstract
Despite the growing emphasis on sustainable development, the extent to which sustainability transparency influences the performance of state-owned entities remains empirically debated. This study investigates the impact of sustainability disclosure on the corporate performance—conceptually defined as "financial health"—of Indonesian State-Owned Enterprises (SOEs). Utilizing a sample of 61 non-bank SOEs from 2018 to 2022, this research employs multiple linear regression with unbalanced panel data. Sustainability disclosure is measured comprehensively using 85 indicators from the GRI Standards, while corporate performance is assessed through the regulatory framework of Decree No. KEP-100/MBU/2002. The results demonstrate that sustainability disclosure does not have a significant effect on the performance of Indonesian SOEs. This lack of significance suggests that sustainability reporting in Indonesian SOEs may still be at a symbolic stage, primarily serving as a tool for legitimacy rather than a driver of substantive performance improvement. These findings imply a need for more stringent enforcement of sustainability regulations and a shift from quantitative reporting to qualitative integration of ESG practices to genuinely enhance SOE value.

INTRODUCTION

Sustainability disclosure has transitioned from a voluntary gesture to a mandatory requirement for many global companies, reflecting an intensifying commitment to long-term value creation. In the Indonesian context, this transparency is increasingly critical for State-Owned Enterprises (SOEs), which function as both commercial entities and strategic instruments for the government's sustainable development agenda. However, despite the formalization of regulations such as OJK Regulation (POJK) No. 51/2017, the actual practice

of sustainability reporting among Indonesian SOEs remains in a developing stage, often mired in a discrepancy between reported data and substantive sustainability practices.

The Triple Bottom Line (TBL) theory posits that a company's success is multi-dimensional, encompassing financial performance alongside social and environmental impacts (Jeurissen, 2000). From the lens of signaling theory, sustainability disclosure may be associated with improved performance as it serves as a quality signal to stakeholders (Connelly et al., 2010). However, the efficacy of this signal depends on its credibility; stakeholders scrutinize these reports to distinguish between genuine commitment and "empty signals" or greenwashing. While detailed disclosures are theoretically seen as more credible (Bartolacci et al., 2022), the misalignment between disclosed information and actual environmental or social performance can lead to a "decoupling" effect, where transparency fails to translate into tangible value.

Beyond signaling, companies strive for legitimacy by aligning their operations with societal expectations. To maintain this legitimacy, firms may enhance the quality of their disclosures through concrete sustainability actions (Nicolò et al., 2023). According to stakeholder theory, managing these relationships is essential for operational continuity, which theoretically should influence both financial and non-financial performance metrics (Bartolacci et al., 2022). While some literature suggests that transparency may be associated with enhanced financial stability, market trust, and reduced legal risks (Jorgji et al., 2024; Rahayu, 2024), there is a significant theoretical and empirical gap regarding how these global ESG concepts intersect with the specific regulatory "Health Level" of SOEs.

This study analyzes the impact of sustainability disclosure on the performance—formally measured as "SOE Health"—of 61 non-bank State-Owned Enterprises in Indonesia from 2018 to 2022. Unlike standard financial performance metrics, the Ministry of SOEs' health assessment (Decree No. KEP-100/MBU/2002) is a robust framework encompassing financial, operational, and administrative dimensions. However, a critical question remains: why might comprehensive disclosure fail to influence these three specific dimensions? Theoretically, if disclosure is perceived merely as a symbolic compliance tool rather than a driver of operational efficiency, its impact on the complex "Health" score of an SOE may be negligible. This study seeks to bridge the conceptual gap between Environmental, Social, and Governance (ESG) criteria and the unique health indicators of Indonesian public-sector entities.

Furthermore, the existing literature presents contradictory findings that challenge the prevailing "optimistic" view of sustainability disclosure. While Rahayu (2024) and Xaviera & Rahman (2023) find positive associations between ESG transparency and profitability or company value, other empirical evidence suggests that such disclosures do not consistently exert an influence, particularly when reporting quality is low or primarily driven by political costs (Mulpiani, 2019). Most prior research has focused on direct financial ratios, overlooking the multi-faceted nature of "SOE Health." By incorporating control variables such as net profit margin, debt-to-asset ratio, company size, government ownership, and subsidies, this study provides a more nuanced examination of whether sustainability transparency truly shapes the performance of enterprises that are heavily influenced by government intervention and public mandates.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Sustainability Reporting Regulation in Indonesia

In Indonesia, sustainability reporting has been mandatory for financial institutions and public companies since 2019 through OJK Regulation No. 51/POJK.03/2017, with implementation for listed companies starting in 2020 (Financial Services Authority, 2017). Due to the COVID-19 pandemic, the implementation of sustainability reporting was postponed until 2021. For State-Owned Enterprises (SOEs), it is regulated by the Ministry of SOEs Regulation No. PER-01/MBU/03/2023 on Special Assignments and SOEs Social and Environmental Responsibility Program (Ministry of State-Owned Enterprises of Indonesia, 2023). In 2022, 88% of listed companies in Indonesia submitted sustainability reports, with 80% using the GRI Standards and the SDGs for their reports (PwC, 2023).

Dissanayake et al. (2020) state that Indonesia is more advanced than Vietnam and the Philippines in sustainability reporting. However, significant challenges remain, such as a lack of understanding of sustainability reporting, limited resources, and unclear regulations. Government regulations are expected to improve corporate compliance with sustainable sustainability reporting (Pratama et al., 2022). Countries such as Singapore, Malaysia, and Thailand have developed more established reporting frameworks, with Singapore serving as a good example of transparency and implementing international standards like the Global Reporting Initiative (GRI) (Pratama et al., 2022). In Indonesia, companies that fail to prepare sustainability reports may face administrative sanctions, such as written warnings or notifications from the Financial Services Authority.

In November 2024, the Indonesian Institute of Accountants released a Public Consultation Document on the Sustainability Disclosure Standards Roadmap, aiming for standards to be effective by January 1, 2027. This initiative seeks to create a structured sustainability reporting system and support sustainable finance. The ISSB Sustainability Disclosure Standards, adopted by over 26 countries including Singapore, Malaysia, and the Philippines, will also be implemented by Australia and the EU in 2024. Indonesia, as Southeast Asia's largest economy, must adopt these standards to stay competitive and lead in global sustainability reporting.

Regulatory Framework: The SOE Health Level as a Performance Metric

In the Indonesian regulatory context, the evaluation of State-Owned Enterprises (SOEs) performance transcends conventional financial reporting. The government mandates a comprehensive assessment framework known as the 'SOE Health Level', which serves as a standardized benchmark to monitor organizational soundness. This multidimensional metric is designed to ensure that state-backed entities remain competitive while fulfilling their public service mandates.

The health of State-Owned Enterprises (SOEs) reflects their efficiency, sustainability, and contribution to the national economy. SOE health is assessed based on an Unqualified or Qualified Opinion from an auditor. For non-financial SOEs, the Ministry of SOEs issued Decree No. 100/MBU/2002 to assess their health (Ministry of State-Owned Enterprises of Indonesia, 2002). The assessment of SOE health levels based on this Decree involves three main aspects:

- Financial Aspect: Indicators evaluated include return on equity, return on investment, cash ratio, current ratio, collection periods, inventory turnover, total asset turnover, and the ratio of equity to total assets.
- Operational Aspect: The operational assessment focuses on customer/public service, production efficiency, and productivity, maintenance of production sustainability, new product innovation, human resource development, research and development, the implementation of government assignments, and environmental responsibility.

- Administrative Aspect: The administrative aspect evaluates the timeliness and quality of reports submitted by SOEs, including annual reports, corporate work plans and budgets, and periodic reports. Other indicators in this aspect include the implementation of small business and cooperative development, which is part of SOEs' social responsibility in supporting national economic development.

Under these regulations, SOE health levels are categorized into three main groups: Healthy, Less Healthy, and Unhealthy. Unlike non-financial State-Owned Enterprises (SOEs), assessing the health level of financial SOEs, specifically, banks follows the Financial Services Authority Regulation No. 4/POJK.03/2016 concerning the Assessment of Commercial Bank Soundness. According that regulation, the bank health level assessment is an evaluation process to determine the bank's condition and performance based on a Risk-based Bank Rating approach. This assessment involves four main factors: risk profile, Good Corporate Governance (GCG), earnings, and capital. Each bank is required to conduct periodic self-assessments. Based on this assessment, banks are given a composite rating consisting of five levels: very healthy, Healthy, Fairly Healthy, Less Healthy, and unhealthy.

In an effort to create synchronized and harmonious regulations for State-Owned Enterprises that support planned, integrated, and sustainable management, the rules regarding SOE health level assessment from 2023 no longer use the Decree of the Minister of SOEs No. 100/MBU/2002. The rules for assessing SOE health levels are unified in a single regulation, the Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/03/2023 of 2023 concerning Guidelines for Governance and Significant Corporate Activities of State-Owned Enterprises. The assessment of SOE health levels in the Minister of SOEs Regulation No. PER-2/MBU/03/2023 is conducted through a rating system known as Corporate Rating, which involves two main components: Stand Alone Rating and Final Rating. This rating is carried out by qualified national or international rating companies.

Theoretical Grounding: Triple Bottom Line, Signaling, and Legitimacy Theory

The integration of sustainability into the performance evaluation of State-Owned Enterprises (SOEs) is grounded in a triad of complementary theories that explain the relationship between transparency and corporate outcomes. First, the Triple Bottom Line (TBL) theory provides a multi-dimensional foundation by expanding the criteria of corporate success beyond mere profitability to include social and environmental impacts (Jeurissen, 2000). In the context of Indonesian SOEs, these dimensions are not merely ethical choices but are conceptually embedded in the KEP-100/MBU/2002 regulatory framework. Here, the operational and administrative health aspects function as the non-financial pillars of the TBL, representing the enterprise's broader responsibility to the state and society.

Second, Signaling Theory elucidates the mechanism through which information flows from the enterprise to external stakeholders. Sustainability disclosure, measured by 85 GRI indicators, serves as a quality signal intended to reduce information asymmetry (Connelly et al., 2010). For an SOE, this disclosure signals "administrative quality" and "managerial excellence" to the government as the primary shareholder and to the public. Theoretically, a robust and high-quality signal should correlate with superior regulatory health scores, as it reflects the management's capability to mitigate ESG risks. However, a critical issue arises if there is a discrepancy between the quantity of disclosure and the quality of practice. In such cases, the signal becomes "weak" or "decoupled," which may explain why a high volume of reporting fails to exert an empirical impact on an entity’s formal performance score.

Third, Legitimacy Theory is paramount in explaining the motivation behind SOE disclosures. Enterprises seek to ensure they operate within the bounds and norms of their respective societies to maintain their "license to operate" (Bartolacci et al., 2022; Nicolò et al., 2023). For Indonesian SOEs, which carry a heavy public mandate, sustainability disclosure is

a strategic tool to gain and maintain legitimacy from the government and citizens. This theory suggests that SOEs might engage in comprehensive reporting to align themselves with global ESG trends and national regulations (such as POJK No. 51/2017). Nevertheless, if these disclosures are utilized merely as symbolic gestures to secure legitimacy without substantive operational changes, the resulting "social contract" remains superficial, providing a theoretical basis for why improved transparency does not always translate into enhanced financial or operational health.

Hypothesis Development: Sustainability Disclosure and State-Owned Enterprises' Performance

Sustainability disclosure reflects a company's strategic commitment to long-term value creation by integrating economic, environmental, and social dimensions into its core operations. In the context of Indonesian State-Owned Enterprises (SOEs), this transparency is theorized to influence "SOE Health"—a comprehensive performance metric encompassing financial, operational, and administrative aspects. According to the Triple Bottom Line (TBL) approach, the holistic integration of these three sustainability pillars can drive operational efficiency and financial stability, which are key components of the regulatory health assessment.

From the perspective of signaling theory, comprehensive sustainability disclosure serves as a quality signal to stakeholders, reducing information asymmetry and enhancing corporate reputation. High-quality disclosures across economic, environmental, and social indicators can lead to tangible benefits, such as reduced debt financing costs and improved access to financial resources, thereby directly bolstering an SOE's financial health (Vitolla et al., 2021). Furthermore, legitimacy theory suggests that by transparently reporting their sustainability impact, SOEs can align themselves with societal expectations and government mandates, securing the "license to operate" that is essential for administrative and operational performance (Bellucci & Manetti, 2018; Kalra, 2024; Kücükgül et al., 2021).

However, the efficacy of this disclosure as a performance driver depends on the alignment between reported data and substantive practices (Yang et al., 2019). While sustainability transparency has been linked to improved profitability and market value in various sectors (Jorgji et al., 2024; Rahayu, 2024), the impact remains contingent on stakeholders verifying these signals through tangible actions rather than mere symbolic gestures (Nicolò et al., 2023; Ligorio et al., 2024). Disclosures backed by concrete sustainability initiatives can catalyze internal policy changes and enhance long-term sustainability performance, which is intrinsically linked to the "Healthy" status of Indonesian public-sector entities (Mushtaq et al., 2023; Nogueira et al., 2024). Given that SOE health is a multidimensional construct, active disclosure across all GRI pillars is expected to collectively shape and improve the overall performance level of the enterprise. Based on these considerations, the hypothesis is:

H1: *Sustainability disclosure (economic, environmental, and social) has a positive effect on the performance (Health Level) of State-Owned Enterprises.*

RESEARCH METHODOLOGY

Sample and Data Sources

The study population comprises 61 non-financial State-Owned Enterprises (SOEs) active as of 2023. Banking-sector SOEs were intentionally excluded due to their distinct regulatory frameworks and different health assessment indicators, which would ensure a more homogenous and comparable analysis. This study employs a purposive sampling method with stringent criteria to safeguard the reliability and scientific validity of the results.

The primary challenge in analyzing Indonesian SOEs is the availability of audited performance metrics. Data on "SOE Health" was obtained directly from the Ministry of SOEs, while sustainability disclosure data was gathered through a rigorous content analysis of GRI-based sustainability reports. The reduction from the initial population to the final sample is not a result of selective bias; rather, it is a methodological necessity.

In the Indonesian context, SOE health data is only officially recorded and released for entities that have undergone a complete external audit and received either an "Unqualified" or "Qualified" opinion. Consequently, SOEs without audited health scores or those that had not yet published sustainability reports—often due to the phased implementation of POJK 51/2017—were excluded. This strict data inclusion criterion ensures that the study's outcomes are based on verified, high-quality data rather than speculative or unaudited information. The final sample size thus reflects the current state of transparency and audit readiness in the Indonesian SOE sector. The details of the sample selection process are summarized as follows:

Table 1. Purposive Sampling

	2018	2019	2020	2021	2022
The number of non-financial SOEs.	61	61	61	61	61
The unavailability of health data for the SOEs	1	0	9	9	10
The total sample before considering disclosure	**60**	**61**	**52**	**52**	**51**
The unavailability of sustainability disclosure	43	42	33	30	29
Sample size	**17**	**19**	**19**	**22**	**22**

Source: Author's Calculation

Research Variables and Measurement Methods

To empirically examine how sustainability disclosure plays a role in shaping the performance of Indonesian State-Owned Enterprises, this study identifies and operationalizes specific variables that reflect both corporate transparency and organizational health. The measurement framework is designed to capture the multidimensional nature of SOE performance, as outlined in the following variables:

Table 2. Variable Measurement

Variables	Labels	Measurement
Independent Variable		
Economic sustainability disclosure	ECO	The economic sustainability disclosure score is determined by calculating the ratio of disclosed economic indicators to the total 13 economic indicators prescribed by GRI 2021. A score of 1 is assigned for each disclosed indicator, and 0 for each non-disclosed indicator.
Environmental sustainability disclosure	ENV	The environmental sustainability disclosure score is calculated as the proportion of 32 GRI 2021 environmental indicators disclosed by the company, with each disclosed item scored 1 and undisclosed item scored 0

Social sustainability disclosure	SOC	The social sustainability disclosure score is based on the proportion of 40 GRI 2021 social indicators disclosed by the company, with each disclosed item scored 1 and each undisclosed item scored 0.
Control Variables		
Net Profit Margin	NPM	The percentage of net profit after tax to total revenue
Debt to Asset Ratio	DAR	The percentage of total debt to total assets
Firm Size	SIZE	The natural logarithm of the total assets
Government ownership	GOV OWN	The percentage of government ownership in SOEs
Government subsidies	SUBSIDY	The percentage of subsidy income to total revenue
Dependent Variables		
SOE Performance (Health)	HSOEs	The final health score is calculated based on the Decree of the Minister of State-Owned Enterprises No. KEP-100/MBU/2002 by summing performance scores from financial, operational, and administrative aspects.

Source: Author's Calculation

Statistical Method

The study employs multiple regression analysis using STATA version 17 to examine the impact of sustainability disclosure on the health of State-Owned Enterprises (SOEs) in Indonesia during the period 2018-2022. The following is the regression model developed:

$$HSOE_{i,t} = \beta 0 + \beta 1ECOi,t + \beta 2ENVi,t + \beta 3SOCi,t + \beta 4NPMi,t + \beta 5DARi,t + \beta 6SIZEi,t + \beta 7GOV\ OWNi,t + \beta 8SUBSIDYi,t + \varepsilon i,t$$

Data Analysis Techniques

The study uses an unbalanced data panel due to missing data across SOEs. The analysis includes:

- Multicollinearity Test: Ensures no excessive correlation among variables using Pearson correlation and VIF.
- Multiple Linear Regression: Tests the impact of sustainability disclosure on SOEs' health.
- Endogeneity Test: Uses one-period lag regression to address biases like reverse causality.
- Robustness Test: Applies cluster-robust technique to handle heteroscedasticity and serial correlation.

RESULTS AND DISCUSSIONS

Disclosure of Non-Financial SOEs

Table 3 shows sustainability disclosure trends in polluting and non-polluting SOEs from 2018 to 2022. Polluting SOEs saw significant increases in Environmental (GRI 300) and Social (GRI 400) disclosures, while Non-Polluting SOEs maintained stable disclosures in Economic (GRI 200) and Environmental (GRI 300), with a slight increase in Social (GRI 400). Despite these improvements, both sectors still fall short of the required disclosure standards—13 for economic, 32 for environmental, and 40 for social.

Table 3. Sustainability Disclosure of Non-Financial SOEs

Sector	2018	2019	2020	2021	2022
a. Polluting SOEs					
Average Disclosure of GRI 200 (Economic, 13 Standards)	7	7	5	7	7
Average Disclosure of GRI 300 (Environmental, 32 Standards)	9	10	10	16	21
Average Disclosure of GRI 400 (Social, 40 Standards)	11	9	12	19	22
b. Non-Polluting SOEs					
Average Disclosure of GRI 200 (Economic, 13 Standards)	4	5	5	5	5
Average Disclosure of GRI 300 (Environmental, 32 Standards)	3	3	5	7	13
Average Disclosure of GRI 400 (Social, 40 Standards)	8	9	7	11	9

Source: Author's Calculation

Test for Multicollinearity

Based on the Pearson correlation analysis in Table 4, there is no evidence of multicollinearity among the independent variables. The highest correlation is between SOC and ENV at 0.5972 (59.72%), well below the 70% threshold. Other correlations, such as ECO-ENV (0.4238), ECO-SOC (0.377), and SIZE-SUBSIDY (0.3662), also show moderate values. This confirms that the regression model is free from multicollinearity, ensuring reliable parameter estimates.

Table 4. Pearson Coefficient Analysis

	HSOEs	ECO	ENV	SOC	NPM	DAR	SIZE	GOVOWN	SUBSIDY
HSOEs	1								
ECO	0.0865	1							
ENV	0.2312**	0.4238***	1						
SOC	0.2308**	0.377***	0.5972***	1					
NPM	0.6991***	0.0558	0.1156	0.142	1				
DAR	-0.5933***	-0.0671	-0.311***	-0.3172***	-0.4278***	1			
SIZE	-0.0061	0.2108**	0.1958*	0.0883	0.0123	0.2007**	1		
GOVOWN	0.2266**	-0.0908	0.0676	0.0437	-0.1132	-0.2563**	-0.3169***	1	
SUBSIDY	0.3229***	0.0198	0.3211***	0.2438**	-0.0053	-0.1726*	0.3662***	0.3186***	1

Notes : *p<0.1; ** p<0.05; *** p<0.01

Source: Author's Calculation

Table 5 shows that all independent variables have VIF values well below the critical threshold of 10, with the highest being 1.86 for ENV. The tolerance values are also above 0.1, confirming no significant multicollinearity. The mean VIF of 1.6 supports the model's reliability, allowing the analysis to proceed with the robust cluster technique for accurate results.

Table 5. VIF Test

Variable	VIF	1/VIF
ECO	1.35	0.741184
ENV	1.86	0.537283
SOC	1.68	0.593634
NPM	1.32	0.759928
DAR	1.63	0.611949
SIZE	1.7	0.588064
GOVOWN	1.54	0.648162
SUBSIDY	1.72	0.581761
Mean VIF		1.6

Source: Author's Calculation

Regression Results

Table 6 shows that the regression model is statistically robust (F-value = 47.87, p = 0.000), with an R-squared value of 0.6896, indicating strong explanatory power. NPM, DAR, GOVOWN, and SUBSIDY significantly affect SOE health. NPM and GOVOWN have positive effects, while DAR has a negative effect. SUBSIDY also has a positive impact. ECO, ENV, SOC, and SIZE do not significantly affect SOE health. **Hypotheses 1, 2, and 3 are rejected**. Key determinants of SOE health include NPM, DAR, GOVOWN, and SUBSIDY.

Table 6. Regression Results

HSOES	Coefficient	t	P>t
ECO	3.340743	1.03	0.306
ENV	-1.235898	-0.34	0.738
SOC	-0.5986866	-0.14	0.893
NPM	0.9673614	7.48	0***
DAR	-0.1456096	-2.97	0.004***
SIZE	-0.0938134	-0.12	0.905
GOVOWN	9.76214	2.34	0.021**
SUBSIDY	100.9853	3.11	0.003***
_cons	73.25151	3.01	0.003***
F		47.87	0.000***
R-Square		0.6896	

Notes: ** p<0.05; *** p<0.01

Source: Author's Calculation

Endogeneity Test

Table 7 shows that the endogeneity test using a one-period lagged regression model confirms the consistency of the results from the initial regression. The variables ECO, ENV, SOC, and SIZE remain insignificant, while NPM, DAR, GOVOWN, and SUBSIDY continue to show significant effects. These results indicate that the initial regression model is not affected by serious endogeneity issues. This strengthens the validity of the findings, confirming that sustainability disclosures (ECO, ENV, SOC) do not significantly impact SOE health.

Table 7. Lagged One-period Regression of Variables

HSOEs	Coefficient	t	P>t
ECO	4.197552	1.35	0.18
ENV	-1.010191	-0.28	0.78
SOC	-1.40148	-0.33	0.745
NPM	1.064571	10.88	0***
DAR	-0.1141987	-2.84	0.006***
SIZE	-0.1414351	-0.18	0.855
GOVOWN	9.270711	2.27	0.025**
SUBSIDY	103.5053	3.19	0.002***
_cons	73.05846	3.04	0.003***
F		48.58	0.000***
R-Square		0.7306	

Notes : ** p<0.05; *** p<0.01

Source: Author's Calculation

Robustness Test

Table 8 presents the robustness test using the robust cluster method with year and industry clustering. The results show consistent significance patterns, with NPM remaining significant at the 1% level for both clusters. DAR is significant at the 5% and 1% levels, GOVOWN at the 10% and 5% levels, and SUBSIDY at the 5% and 10% levels. ECO, ENV, SOC, and SIZE remain insignificant. These consistent results confirm that sustainability disclosures do not significantly impact SOE health, while financial variables and government ownership do.

Table 8. Robust Cluster Year Regression Results

HSOEs	Coefficient	Cluster Year		Cluster Industry	
		t	P>t	T	P>t
ECO	3.340743	1	0.373	1.29	0.211
ENV	-1.235898	-0.4	0.709	-0.43	0.671
SOC	-0.5986866	-0.09	0.934	-0.19	0.849
NPM	0.9673614	7.03	0.002***	7.9	0***
DAR	-0.1456096	-3.62	0.022**	-3.07	0.005***
SIZE	-0.0938134	-0.12	0.909	-0.14	0.893
GOVOWN	9.76214	2.22	0.09*	2.62	0.015**
SUBSIDY	100.9853	3.98	0.016**	1.89	0.071*
_cons	73.25151	2.91	0.044**	3.5	0.002***
R-Square		0.6896		0.6896	

Notes : * p<0.1; ** p<0.05; *** p<0.01

Source: Author's Calculation

Discussion: Sustainability Disclosure and State-Owned Enterprises' Performance.

The core finding of this study reveals that sustainability disclosure (encompassing economic, environmental, and social dimensions) does not significantly impact the overall health of non-financial SOEs in Indonesia. This lack of significance requires a critical evaluation of why transparency fails to shape performance in the SOE sector. From the

perspective of signaling theory, this indicates that sustainability reports may not yet function as a "high-quality signal" capable of reducing information asymmetry. Stakeholders may perceive these disclosures as superficial, failing to provide a clear signal regarding a company's genuine commitment to sustainable practices (Ligorio et al., 2024).

The evaluation of this non-significant outcome suggests that sustainability disclosure in Indonesian SOEs remains at a symbolic stage rather than a substantive one. While companies disclose information to gain legitimacy, the absence of a correlation with "SOE Health" metrics—which are heavily weighted toward financial and operational efficiency—indicates a "decoupling" between reporting and reality. Without concrete evidence of tangible actions, disclosure alone is insufficient to convince stakeholders or improve the enterprise's health (Ligorio et al., 2024). This finding is further exacerbated by the lack of stakeholder pressure in Indonesia regarding sustainability issues, which diminishes the "reward" for transparent companies (Maesaroh et al., 2022).

Furthermore, the suboptimal level of disclosure—where only 38% of active SOEs reported sustainability data—points to institutional barriers. The delay in implementing Financial Services Authority Regulation No. 51/POJK.03/2017 due to the pandemic (PwC, 2023) and the late issuance of Ministry of SOEs Regulation No. PER-01/MBU/03/2023 suggest that sustainability is still viewed as a voluntary administrative burden rather than a strategic driver (Erin et al., 2022).

Interestingly, while disclosure does not affect health across the board, "polluting" SOEs demonstrate a higher disclosure rate (58% in 2022) compared to non-polluting ones. This reinforces legitimacy theory, suggesting that for high-impact sectors, disclosure is used defensively to mitigate social and environmental scrutiny rather than to drive performance improvements (Dissanayake et al., 2020).

In contrast to sustainability variables, traditional financial and structural indicators remain the primary drivers of SOE Health. This study finds that Net Profit Margin (NPM) and government ownership positively shape SOE health by ensuring operational continuity and financial backing. Conversely, a high Debt-to-Asset Ratio (DAR) undermines stability by increasing financial risk. The fact that subsidies positively contribute to health, while sustainability disclosure does not, confirms that the current "Health Level" assessment for Indonesian SOEs is still predominantly shaped by financial support and profit-oriented metrics rather than ESG transparency.

CONCLUSION, IMPLICATIONS, RESEARCH LIMITATIONS, AND SUGGESTION

Conclusion

This study concludes that sustainability disclosure does not significantly shape the performance (health level) of State-Owned Enterprises (SOEs) in Indonesia. The empirical evidence suggests that while SOEs have begun to adopt GRI-based reporting, these disclosures have not yet translated into tangible improvements in financial, operational, or administrative health. This lack of impact indicates that sustainability reporting in the Indonesian SOE sector is currently at a symbolic stage, primarily functioning as a tool for social legitimacy rather than a strategic driver of corporate performance.

The findings reveal that the "Health Level" of SOEs is still predominantly influenced by traditional financial metrics such as profitability and government support (subsidies and ownership) rather than environmental or social transparency. This suggests a "decoupling" between the transparency efforts and the core operational assessment of these enterprises. Furthermore, the suboptimal and varied levels of disclosure across the sector reflect the nascent stage of sustainability integration, which was further hindered by the phased implementation of relevant regulations during the study period.

In summary, this research highlights that simply "disclosing" information is insufficient to improve organizational health if the disclosure is not integrated into substantive corporate actions. For sustainability disclosure to truly shape SOE performance, there is a need for a shift from symbolic compliance to integrated reporting that aligns sustainability goals with the regulatory health assessment framework of the Ministry of SOEs.

Implications

The empirical evidence showing that sustainability disclosure does not significantly impact SOE performance suggests several targeted policy implications. First, the government, through the Ministry of SOEs, should transition from mandating disclosure quantity to integrating ESG (Environmental, Social, and Governance) metrics directly into the official "SOE Health" assessment framework (KEP-100/MBU/2002). This integration would ensure that sustainability becomes a substantive driver of organizational health rather than a symbolic gesture.

Second, the "decoupling" between reporting and performance highlights the need for more rigorous verification and audit mechanisms to ensure that disclosures reflect tangible actions. Lastly, regulators should create a reward-and-penalty system, such as linking green financing access and tax incentives to high-quality, audited sustainability practices. These measures will encourage SOEs to adopt sustainability as a core strategy to improve their long-term organizational health and viability in the Indonesian perspective.

Research Limitations

This study is limited by its sample, which includes only SOEs active in 2023, despite there being 114 SOEs in 2018. The analysis focuses on 61 non-financial SOEs, excluding 4 in the financial sector due to differing health indicator measurements. Our review found only 3 excluded SOEs consistently published sustainability reports during 2018–2022, with a few others starting in later years. As such, the findings may not fully capture the broader dynamics of the SOE sector, and the results should be interpreted with caution.

Suggestions

Further studies could also explore the impact of new policies implemented in 2023 on sustainability disclosure and corporate performance. Additionally, the research could delve deeper into the application of international standards, such as those issued by the ISSB, in developed countries and explore their potential application once implemented in Indonesia, focusing on more diverse sectors.

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