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Disclosure of sustainability report and accounting conservatism

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ABSTRAK

Pengungkapan laporan keberlanjutan merupakan bentuk tanggung jawab sosial dan lingkungan perusahaan. Kualitas dan inisiatif perusahaan dalam pengungkapan laporan keberlanjutan akan berdampak pada penyusunan laporan keuangan dengan konsep konservatisme akuntansi. Penelitian ini bertujuan untuk memberikan bukti empiris pengaruh pengungkapan laporan keberlanjutan terhadap penerapan prinsip konservatisme akuntansi. Populasi penelitian ini adalah perusahaan sektor manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2017-2020. Jumlah sampel yang digunakan dalam penelitian ini sebanyak 74 sampel berdasarkan metode purposive sampling. Metoda analisis data dalam penelitian ini adalah analisis kuantitatif menggunakan analisis regresi data panel dengan Random Effect Model (REM). Hasil penelitian ini menunjukkan bahwa pengungkapan laporan keberlanjutan berpengaruh positif terhadap konservatisme akuntansi. Kontribusi penelitian ini untuk membantu perusahaan mempertimbangkan upaya tanggung jawab perusahaan yang harus diprioritaskan. Perusahaan harus lebih menyadari dampak konservatisme akuntansi dan berbagai aspek dalam pengungkapan laporan keberlanjutan.

ABSTRACT

Disclosure of sustainability reports is a form of corporate social and environmental responsibility. The company's quality and initiatives in disclosing sustainability reports will impact the preparation of financial reports under the concept of accounting conservatism. This research aims to provide empirical evidence of the effect of sustainability report disclosure on applying accounting conservatism principles. This research comprises manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in 2017–2020. The number of samples used in this research was 74, based on the purposive sampling method. The data analysis method in this research is a quantitative analysis

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using panel data regression analysis with the Random Effect Model (REM). The results of this research indicate that disclosure of sustainability reports has a positive effect on accounting conservatism. This research's contribution is to help companies decide what their corporate responsibility efforts should prioritize. The companies should be more aware of the effects of accounting conservatism and different sustainability report disclosures.

INTRODUCTION

Financial reports provide information for interested parties, both internal and external. According to Iskandar & Sparta (2019), companies should issue financial reports to show their performance in one period. They must comply with objectives, rules, and accounting principles following the SAK (Indonesian Financial Accounting Standards). Companies must be careful in preparing financial reports. The concept of accounting conservatism is an important element in demonstrating the quality of financial reports (Ball & Shivakumar, 2005). Accounting conservatism encourages companies to recognize costs or losses that may occur promptly but not immediately when recognizing profits or revenues (Ball & Shivakumar, 2005). Conservatism represents a tendency to require higher verification levels to recognize good news than bad news in financial reporting, implying more stringent recognition requirements for profits than losses (Basu, 1997). Sadi *et al.* (2022) confirm that international financial reporting standards will increase conservatism, reduce profit management, reduce information asymmetry, increase the transparency of information provided, and improve the overall quality of accounting information. Key & Kim (2020) find the evidence in Korea consistent with less earnings management following IFRS adoption and more timely loss recognition, indicative of higher accounting quality. The level of conservatism in financial reports is related to the company's efforts to be accountable to stakeholders and minimize stakeholder risk in anticipation of unstable economic conditions (Shen *et al.*, 2021).

So far, presenting information in financial reports to stakeholders has only focused on financial responsibility. Apart from being responsible for stakeholders, the company has social and environmental responsibilities. Financial Services Authority Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies explains that social and environmental responsibility shows a company's commitment to participate in sustainable economic development to improve the quality of life and the environment that is beneficial, both for the company itself, the local community, and society in general.

In addition, public companies must prepare a sustainability report that contains economic, financial, social, and environmental performance in running a sustainable business. Even though social and environmental responsibility reporting is required by law, the items that must be disclosed are still voluntary, following the company's

preferences and views (Nawang Sari *et al.*, 2021). Differences in the objective orientation of financial statement disclosures and sustainability report disclosures can affect company priorities in carrying out responsibilities regarding company activities.

Several previous studies regarding accounting conservatism and sustainability report disclosure came from Burke *et al.* (2020), where companies with good sustainability report disclosures tend not to engage in opportunistic behavior when entering into contracts with stakeholders, causing reduced demand for conditional conservatism from contracting parties. Anagnostopoulou *et al.* (2021) state that companies with financial problems show higher accounting conservatism when a crisis occurs but have a lower level of sustainability report disclosure.

Research conducted in Russia by Garanina & Kim (2023) and in China by Shen *et al.* (2021) show a positive influence between compliance with implementing and reporting social and environmental responsibility and accounting conservatism. Disclosure of the sustainability report helps increase legitimacy and broaden stakeholder relationships concerning accounting conservatism. Research on public companies in Shanghai and Shenzhen found that compliance with social and environmental responsibilities required by the government led to conservative financial reporting. Similar results were also shown in a research of companies listed on the Portuguese stock exchange by Pereira *et al.* (2021) that disclosure of the sustainability report increases conditional accounting conservatism. In contrast, Noor *et al.* (2021) find that disclosure of the sustainability report does not affect accounting conservatism. Disclosure of the sustainability report is only a fulfillment of government regulatory obligations. In India, compliance with the implementation and reporting of mandatory social responsibility impacts conditional accounting conservatism for companies with good governance and inversely for family companies (Shaw *et al.*, 2021). Based on the various findings of previous researchers, this research was conducted to re-examine the link between sustainability disclosures.

Given the importance of implementing and reporting social responsibility in the form of a sustainability report and the company's commitment to financial stakeholders, further studies are needed regarding accounting conservatism and the disclosure of sustainability reports. Unlike previous research, this research uses companies in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) in 2017–2020 as research objects. This research shows that conservatism no longer appears within the IFRS conceptual framework, but the principle of conservatism does not completely disappear. This principle of conservatism is replaced by the prudence principle described in paragraph 37 of the IASB framework. Furthermore, this research also involves the COVID-19 pandemic in 2019 and 2020, which is expected to differ from research in the years before the pandemic.

Manufacturing sector companies were chosen because they are companies with a sizable population, and manufacturing companies directly impact the environment

and use more human resources because the company's location is usually close to residential communities. This also aims to avoid bias due to differences in industry and manufacturing sectors, accounting for relatively large equity (Andreas *et al.*, 2017). This research shows how corporate social responsibility in the form of sustainability report disclosure influences the level of accounting conservatism in preparing financial reports, which is the company's responsibility to stakeholders.

The results of this research are expected to provide theoretical information, especially from the perspective of legitimacy theory and practical benefits. Practically, this research is expected to assist companies in considering company priorities in carrying out corporate responsibility activities. Companies are expected to better understand the impact of various aspects of sustainability report disclosures and accounting conservatism. In addition, it can be used as material for investors who will invest by considering the impact of the disclosure of the company's sustainability report and its influence on the quality of financial statements. Theoretically, this research is expected to answer the research problem regarding how sustainability report disclosure and accounting conservatism influence each other. In addition, it can provide insight for future research that will continue research on similar topics to be used as a reference and information.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Legitimacy Theory

Based on the legitimacy theory perspective, companies or organizations must pay attention to social norms to make themselves more legitimate. The practice of disclosing corporate responsibility needs to be implemented so that the company's business activities can be accepted by society. Companies need a good strategy for community legitimacy to support the sustainability of their existence (Noor *et al.*, 2021). As a system that prioritizes the alignments or interests of the community, the company's operations must follow the community's expectations. If the community realizes that the organization operates for a value system that is commensurate with the community's value system, the company's existence will continue (O'Donovan, 2002). Companies that have a good reputation in society can be an attraction for investors. When a company gains support from the community and stakeholders, the company will tend to act carefully to maintain its legitimacy. One form of prudent reaction by companies is accounting conservatism. Through accounting conservatism, companies can improve information accuracy and reduce information asymmetry (Beyer *et al.*, 2010).

Accounting Conservatism

Accounting conservatism is the timeliness required to recognize a company's economic gains and losses. Accounting conservatism is carried out by reducing net

asset value or profits in response to bad news and not increasing profits when there is good news (Shroff *et al.*, 2013). According to Ridho & Arianto (2022), accounting conservatism is a company's cautious reaction to uncertainty. Uncertainty is an inherent threat that cannot be separated from a company.

Implementing the concept of accounting conservatism will result in lower profits, but the recognition of costs and debt will be higher (El-Haq *et al.*, 2019). This is because, in principle, accounting conservatism is an attempt to choose generally accepted accounting that slows down revenue recognition, accelerates expense recognition, lowers asset valuation, and elevates debt valuation (Wolk *et al.*, 2001). Accounting conservatism in each company has different levels and aims to anticipate losses in company activities (Rivandi & Ariska, 2019). The level of accounting conservatism in preparing financial reports can be assessed using three different approaches. The first approach uses net asset measurement (Shroff *et al.*, 2013). This approach is assessed by looking at assets that are understated and liabilities that are overstated. This measurement proxy uses the market-to-book value of equity ratio, which reflects the market value of the company's equity.

The second approach measures earnings and accruals by calculating the difference between net income and cash flow (Givoly & Hayn, 2000). The approach states that conservatism produces negative accruals, the proceeds from ongoing operational activities minus net income before depreciation (amortization). So, the greater the negative accrual, the more conservative accounting will be applied. The third approach uses the value of earnings/stock return relations (Shroff *et al.*, 2013). Measurement with a market reaction approach to company information. This approach is carried out by associating the value of earnings with stock returns. When changes occur, stock market prices tend to reflect changes in asset values. In this research, the total accrual calculation will be used, which refers to the research of Givoly & Hayn (2000). This research will measure accounting conservatism using the earning and accruals measurement approach. This approach was chosen because this research will focus more on accounting conservatism related to profit and loss using the accrual concept. The receipts and expenses are recognized or recorded when transactions occur, not when cash is received or paid.

Sustainability Reporting

The concept of social and environmental responsibility was first put forward by Howard R. Bowen in 1953, who stated that companies must follow the actions and values desired by society. Social and environmental responsibility is defined as a company's ongoing commitment to contribute to developing a sustainable economy by considering corporate responsibility in economic, social, and environmental aspects (Pramukti & Buana, 2019). Apart from being a moral responsibility, social and environmental responsibility is also a legal responsibility because various laws and regulations have regulated sanctions related to social and environmental responsibility

(Disemadi & Prananingtyas, 2020). So, it can be concluded that social and environmental responsibility is a responsibility that must be carried out by a company related to corporate social activities following applicable laws and regulations, especially for every company whose business activities are in the field of or related to natural resources.

According to Mathews (1995), sustainability report disclosure provides information to interested groups about company activities and their social and environmental impacts. Disclosure of the sustainability report becomes a concept for communicating the social and environmental impacts of company activities to stakeholders and society (Sembiring, 2005). According to Cheng & Christiawan (2011), the disclosure of a sustainability report can improve the company's image and attractiveness in the eyes of investors and financial analysts, show brand positioning, and increase sales and market share.

Sustainability report disclosure measurement indicators use the GRI (Global Reporting Initiative) standard. The GRI standards have evolved from time to time, starting with the first version of the GRI Guidelines (GRI-G1) to GRI Standards 2021. In this research, the measurement of the disclosure of sustainability reports will use the 2016 GRI Standards. The 2016 GRI Standards consist of two reporting standards, universal and topic-specific, and are divided into four series. Series 100 describes universal standards, which consist of 3 categories: GRI 101 (Foundation), GRI 102 (General Disclosures), and GRI 103 (Management Approach). The 200, 300, and 400 series explain topics related to standard-specific topics, including economic, environmental, and social.

Disclosure of Sustainability Report and Accounting Conservatism

Based on legitimacy theory, it is known that companies try to adjust the values and norms that exist in society to meet people's expectations. This causes companies to consider social factors as a form of company concern for social problems in society. In carrying out business activities in pursuit of profit, companies must be careful in choosing actions that will impact the views of stakeholders and society. According to (Hong & Andersen, 2011), companies with high social responsibility tend to have good-quality financial reports. This is because social responsibility carried out by a company will reduce earnings manipulation 2b. According to Fombrun & Shanley (1990), companies with a good reputation and who receive support from the community and stakeholders will tend to prohibit management from being involved in activities not expected by the community and stakeholders, such as overstated profit reporting. The company's carelessness in acting will trigger a threat to its legitimacy and survival. Through accounting conservatism, companies can improve information accuracy and reduce information asymmetry (Beyer *et al.*, 2010). Maximum disclosure of sustainability reports will influence companies to apply accounting conservatism to maintain legitimacy and avoid threats that can undermine stakeholder trust.

According to Guo *et al.* (2020), there is a theory to explain why a firm's social responsibility engagement is relevant to its accounting choices. The argument is based on the stakeholder theory that explains managers conscious of corporate social responsibility behave legally and morally, suggesting that CSR-committed managers are likely to fulfill their fiduciary duty toward stakeholders. This insight suggests that firms that embark on stakeholder relations via social responsibility endeavors are likely to reduce stakeholders' downside risk from misleading accounting information through conservatism in financial reporting. This research shows that in preparing financial reporting, the level of accounting conservatism increases significantly in line with the disclosure of a company's sustainability report. Companies oriented towards social and corporate responsibility and disclosure tend to use accounting conservatism to commit to taking reliable actions in stakeholders' interests.

This is also supported by the research of Ikma & Syafruddin (2019), which explains that social and environmental responsibility plays an important role in hindering earnings management in companies to encourage conservative financial disclosures to avoid overstated profit reporting. Disclosure of the sustainability report also increases conditional accounting conservatism (Pereira *et al.*, 2021). Based on research by Cheng & Kung (2016); Garanina & Kim (2023), companies with higher sustainability report disclosures tend to have more conservative financial reporting practices because sustainability report disclosures can help increase the legitimacy of a company and expand stakeholder relationships, resulting in a company's need to be careful in preparing financial reports. Based on the description, the following hypothesis is formulated:

H1: Disclosure of the sustainability report positively affects the level of accounting conservatism.

RESEARCH METHODS

This research uses secondary data with a quantitative approach. The data used in this research is the company's annual financial report published by the Indonesia Stock Exchange through the website www.idx.co.id in 2017–2020 and the company's sustainability report based on the 2016 GRI Standards published on the official website of each company.

The population in this research comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017–2020. Sampling uses a non-probability sampling method with a purposive sampling technique, which is a technique for collecting data by determining the sample and considering certain criteria regarding which samples are useful and can represent the population (Sugiyono, 2018). In selecting the sample, there are several criteria. First, companies that publish financial reports in Indonesian Rupiah (IDR). Second, companies that publish consecutive

financial reports and sustainability reports from 2017–2020. Third, companies that use the GRI Standards in the disclosure Sustainability Report.

In this research, the dependent variable used is accounting conservatism by using the total accrual calculation (Givoly & Hayn, 2000). Accounting conservatism is measured by subtracting the value between income before extraordinary items and operating cash flow in the same year. The measurement formula is:

$$\text{CONACC}_{it} = \text{NI}_{it} - \text{CFO}_{it} \times (-1) \dots\dots\dots 1$$

Where

CONACC_{it} : Conservatism level for company i at time t

NI_{it} : Profit before extraordinary items plus depreciation for company i at time t

CFO_{it} : Cash flow from operations for company i at time t

The CONACC calculation is multiplied by -1. So, the greater the (positive) CONACC value, the higher the level of accounting conservatism in a company. This is because the profit disclosed in the financial statements exceeds the cash available for operational activities. Conversely, the smaller (negative) CONACC value indicates a lower level of accounting conservatism because the profit disclosed in the financial statements is smaller than the cash available for the company's operational activities.

The independent variable is the disclosure of sustainability reporting, which will be measured using the 2016 GRI Standards index. There are two values for each indicator to measure the disclosure of sustainability reports: Value 0 if the item is not disclosed in the sustainability report and score 1 if the item is disclosed in the sustainability report. After knowing which items are disclosed next, a calculation is performed on the sustainability report disclosure index. The measurement formula is:

$$\text{SR Disclosure Index} = \frac{\text{Total items in SR}}{136 \text{ items}} \dots\dots\dots 2$$

In this research, we also added control variables for the company size, which were measured by transforming the company's total assets into a natural logarithm. There are two different views about the effect of size on accounting conservatism. The political cost hypothesis predicts that larger firms will use more conservative accounting (Watts & Zimmerman, 1986). On the other hand, the hypothesis of income aggregation and information asymmetries predicts that larger firms are less conservative, as documented in (LaFond & Watts, 2008). The formula for calculating company size is expressed as:

$$\text{Company Size (size)} = \text{Log (Total Asset)} \dots\dots\dots 3$$

Then, the profitability ratio used is Return on Assets (ROA). Ahmed *et al.* (2002) argue that profitable firms use more conservative accounting. The formula calculates probability:

$$\text{Return On Assets (ROA)} = \frac{\text{Income after tax}}{\text{Total assets}} \dots\dots\dots 4$$

The panel data regression analysis equation used is as follows:

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{SR}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Profit}_{it} + \varepsilon_{it} \dots\dots\dots 5$$

Where,

CONACC_{it}: Accounting Conservatism for company *i* at time *t*

SR_{it}: Disclosure of sustainability report for company *i* at time *t*

Size_{it}: Company Size for company *i* at time *t*

Profit_{it}: Profitability (ROA) for company *i* at time *t*

β₀: Constant parameter

β₁, β₂, β₃: Regression coefficients

ε_{it}: Standard error for company *i* at time *t*

DISCUSSION AND RESULTS

The population in this research were manufacturing sector companies listed on the Indonesia Stock Exchange during the 2017–2020 observation period. Based on data obtained from www.idx.co.id and the company's website, 74 samples were obtained.

Table 1
Sampling Selection

Information	Total
Manufacturing Company listed on the Indonesian Stock Exchange	191
The company did not publish financial reports in rupiah in 2017-2020	(34)
The company did not publish a sustainability report in 2017-2020	(128)
Number of manufacturing companies listed on the Indonesian Stock Exchange that published sustainability reports and financial reports in 2017 - 2020	29
Number of samples of manufacturing companies listed on the Indonesian Stock Exchange that published sustainability reports and financial reports in 2017 - 2020	116
Inappropriate sample size (Normality problems)	(42)
Total of research samples	74

Descriptive statistics for each research variable can be seen in Table 2.

Table 2
Statistics Descriptive

Variable	N	Min.	Max.	Mean	Std. Dev.
Conservatism	74	-69.906	6.919	7.378	13.538
SR Disclosure	74	0.147	0.794	0.443	0.117
Size	74	11.678	14.546	13.017	0.706
Profitability	74	-0.499	0.599	0.078	0.154

Source: Processed secondary data (2023)

Based on Table 2, the accounting conservatism variable has a minimum value of -69.906 obtained in 2019 from PT Astra International Tbk, while the maximum accounting conservatism value is 6.919 obtained in 2019 from PT Waskita Beton Precast Tbk. The average value of accounting conservatism is negative, which means

that manufacturing companies have lower accounting conservatism principles in their financial reporting. The minimum value in the sustainability report disclosure variable is 14.7%, obtained in 2017 from PT Campina Ice Cream Industry Tbk, while the maximum value for sustainability report disclosure is 79.4%, obtained in 2019 from PT Merck Tbk. The average (mean) value of sustainability report disclosure in manufacturing companies is 44.3%, which means that the average sustainability report disclosure for manufacturing companies in Indonesia is still around 44.3% of the total existing disclosures.

The minimum company size and ROA values are 11.678 and -0.499, respectively. The minimum value of company size was obtained in 2017 from PT Chitose Internasional Tbk. The minimum value of ROA was obtained in 2020 from PT Waskita Beton Precast Tbk. Then, the maximum firm size and ROA values are 14.546 and 0.599, respectively. The maximum value of company size was obtained in 2019 from PT Astra International Tbk. ROA was obtained in 2020 from PT KS Food Sejahtera Tbk. The average value of the company size is 13.017. The average value of ROA is 0.078. During the research period, the average manufacturing company had a profit of 7.8% of total assets.

Panel Data Model Selection Test

Panel data regression was employed in this research's data analysis.. Panel data regression was chosen because the data tested is cross-sectional and time-series. Panel data regression will produce greater freedom, reducing bias in estimating data. The Chow test was carried out to determine the correct model between the Fixed Effect Model (FEM) and the Common Effect Model (CEM). If the probability of Chi-square is smaller than alpha, the Fixed Effect Model (FEM) will be the best model. Based on Table 3, the Chow test results show that the probability of Chi-square is 0.1942. It is bigger than alpha (0.05). Thus, the best model is the Common Effect Model (CEM).

The Hausman test was carried out to determine the correct estimation model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). Suppose the resulting probability value is less than alpha or probability < 0.05 . Then, the best model is to use the Fixed Effect Model (FEM). Suppose the resulting probability value is greater than alpha or probability > 0.05 . Then, the Random Effect Model (REM) is assumed to be the best model. Based on Table 4, the results of the Hausman test show that the probability value is 0.998. The probability value is greater than alpha (0.05). Based on the results of the Hausman test, the best model is the Random Effect Model (REM).

The Lagrange Multiplier test was conducted to select the best model between the Common Effect Model (CEM) and the Random Effect Model (REM). If the resulting probability value is < 0.05 , then the Random Effect Model (REM) model is used. If the resulting probability is > 0.05 , the Common Effect Model (CEM) model is appropriate.

Based on Table 5, the model test results show that the resulting cross-sectional value is 0.000. It means that the best model is the Random Effect Model (REM). The Random Effect Model (REM) model does not require heteroscedasticity and multicollinearity tests. According to Rosadi (2012), the Generalized Least Squares (GLS) model does not require a classical assumption test because it is irrelevant and the results tend to fail.

Based on the test results (Chow test and Lagrange Multiplier test) from the model that has been done previously, the panel data regression analysis used in this research is the Random Effect Model (REM).

Table 3
Chow Test Results

Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob
Cross-section Chi-square	38.657	32	0.194

Source: Processed secondary data (2023)

Table 4
Hausman Test Results

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	0.028	3	0.998

Source: Processed secondary data (2023)

Table 5
LM Test Results

Lagrange Multiplier Tests for Random Effects			
	Cross-section	Test Hypothesis	Both
Breusch-Pagan	20.459 (0.000)	1.180 (0.277)	21.640 (0.000)

Source: Processed secondary data (2023)

Table 6
Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_SR	0.055	0.012	4.516	0.000
X2_SIZE	0.012	0.003	3.391	0.001
X3_ROA	0.003	0.001	1.927	0.058
C	-0.364	0.103	-3.509	0.000

Adjusted R-squared: 0.305

Prob(F-statistic): 0.000

Source: Processed secondary data (2023)

Based on Table 6, the Adjusted R-square value is 0.305. This value means the sustainability report can affect the dependent variable, namely the accounting conservatism of 30.5%. In comparison, the remaining 69.5% is influenced by other factors outside the model. Furthermore, a probability value of F-statistic as 0.000 is obtained. The value is smaller than alpha or the probability value < alpha (0.05).

Based on the results of descriptive statistics, the sustainability report disclosure level of around 44.3% shows that it still influences accounting conservatism. The

results of statistical data analysis show that sustainability report disclosure positively affects accounting conservatism. The wider the disclosure in the sustainability report, the higher the level of company conservatism. The results of this research are in line with the research of (Guo *et al.*, 2020; Ikma & Syafruddin, 2019; Pereira *et al.*, 2021), which show that social responsibility disclosed in the sustainability report will have a positive effect on the level of accounting conservatism. Likewise, the research by Cheng & Kung (2016); Garanina & Kim (2023) highlight that corporate social and environmental responsibility disclosed in the sustainability report increases legitimacy and expands stakeholder relationships, positively influencing the accounting conservatism levels. This is because the disclosure of the sustainability report for manufacturing companies can also increase the company's reputation and public trust. After all, it shows its seriousness in managing environmental and social risks and positively contributes to society and the environment. Thus, it can increase investor and customer confidence in the company. Therefore, it is more careful in making accounting decisions that can affect its reputation.

Based on Table 6, the probability value of company size is smaller than alpha or the probability value $< \alpha$ (0.05), equal to 0.001. So, it can be concluded that company size positively affects accounting conservatism, where the larger the company scale. The greater the company's total assets, the higher the accounting conservatism. These results also indicate that company size can be a control variable in this research model. Meanwhile, ROA has a greater probability value than 0.05, which is 0.058. This means that ROA cannot be a good control variable for making a better model.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

This research examines the effect of sustainability report disclosure on accounting conservatism. The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. The results of panel data regression analysis with the Random Effect Model (REM) found that disclosure of the sustainability report positively affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The results of this research imply that the wider the company's disclosures in the sustainability report, the more careful the company is in making accounting decisions. This has an impact on the level of accounting conservatism applied by the company.

The results of this research can be useful for companies to consider in determining the extent of sustainability report disclosures and the application of accounting conservatism to overcome problems related to company legitimacy. In addition, it can also be used to assess financial statements for investors who will invest by looking at the sustainability report disclosure and its impact on the accounting conservatism principles the company applies. Theoretically, this research proves that

accounting conservatism is a form of corporate caution when making decisions to prevent information asymmetry.

This research has several limitations. First, the research was conducted from 2017 to 2022, when 2020 the COVID-19 pandemic occurred. This research does not consider the influence of the pandemic in reporting company financial statements. Second, the measurement of sustainability report disclosure used only uses the Global Reporting Initiative (GRI) index, which sometimes does not cover all aspects of sustainability. However, some companies use other ways to disclose their sustainability information. Then, there is the researcher's subjectivity factor in determining disclosure indicators.

Further studies are expected to be able to conduct more extensive research by involving more companies that publish sustainability reports that are not limited to one industrial sector. In addition, it can also expand the measurement of sustainability report disclosures by combining several different measurement methods to cover all aspects of each company's sustainability.

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