

Institutional Translation and Sectoral Readiness: Localizing IFRS S1 and S2 in Indonesia

Amelia Setiawan¹, Haryanto Haryanto^{2*}, Agung Nugroho Soedibyo³, Samuel Wirawan¹, Hamfri Djajadikerta¹, Sandra Faninda¹, Mardiana Mardiana¹

¹Accounting Department, Faculty of Economics, Parahyangan Catholic University, Indonesia, ²Accounting Department, BINUS Online Learning, Bina Nusantara University, Indonesia, ³PT PertaLife Insurance, Indonesia. *Corresponding Author's Email: haryanto006@binus.ac.id

Abstract

The global shift toward standardized sustainability reporting, driven by IFRS S1 and S2, places growing demands on emerging markets to align domestic disclosure practices with international expectations. In Indonesia, existing ESG regulations remain fragmented and only partially integrated with IFRS frameworks. This study evaluates the readiness of Indonesian public companies to adopt IFRS S1 and S2, with particular attention to the adequacy, materiality, and sectoral relevance of ESG disclosures. A qualitative content analysis was conducted on sustainability and annual reports from 22 listed firms across 11 sectors, using stratified sampling by asset size. A total of 113 disclosure items were assessed, drawn from IFRS S1, IFRS S2, and the ISSB's Industry-Based Guidance. A three-point scale was used to rate disclosure quality, and inter-coder reliability exceeded 90 percent. Findings reveal that while high-asset firms reported more ESG content, many disclosures lacked sector-specific depth. Smaller healthcare firms achieved the highest alignment with IBG expectations, suggesting that legitimacy concerns and ethical identity may influence disclosure more than financial capacity. Symbolic language and generic commitments dominated, with climate-related disclosures notably weak. The study concludes that ESG readiness is not solely a function of regulatory compliance or firm size. Instead, it reflects how global standards are interpreted and translated within national institutions and sectoral logics. These results underscore the need for sector-specific ESG benchmarks and institutional capacity-building. Effective adoption of IFRS S1 and S2 requires not only regulatory alignment, but also contextual understanding, stakeholder engagement, and sustained normative commitment.

Keywords: Climate Governance, ESG Disclosure, IFRS S1, IFRS S2, Institutional Translation, Sectoral Legitimacy.

Introduction

As the global climate crisis deepens, corporate reporting faces an existential test. Financial statements once the sole pillars of transparency and investor assurance are increasingly viewed as incomplete when divorced from the environmental and social dimensions of value creation (1, 2). Today's stakeholders no longer settle for numerical accuracy; they demand narrative accountability. In this new era, sustainability disclosures are not optional appendices but central instruments of legitimacy and long-term strategy. Recognizing this seismic shift, the IFRS Foundation established the International Sustainability Standards Board (ISSB), which has launched two global standards: IFRS S1 and IFRS S2 Climate-related Disclosures (3, 4). Effective from January 1, 2024, these standards aim to unify sustainability reporting globally by embedding it within the architecture of

financial materiality. IFRS S1 demands firms to disclose sustainability risks and opportunities relevant to future prospects, while IFRS S2 sharpens the focus on climate risks that may affect cash flows, capital access, or financing costs. For investors, such disclosures now serve as strategic signals vital for interpreting risk, resilience, and long-term viability (5, 6). Conversely, gaps or inconsistencies in sustainability reporting, especially in emerging markets, exacerbate information asymmetries and compromise capital allocation efficiency. Indonesia, as a nation committed to IFRS convergence, stands at a critical juncture. Regulatory initiatives such as POJK 51/2017 and SEOJK 16/2021 and POJK 51/2017 have begun institutionalizing sustainability reporting (7, 8). Yet, these national frameworks have yet to achieve full harmony with IFRS S1 and S2, leaving public companies in a transitional space

This is an Open Access article distributed under the terms of the Creative Commons Attribution CC BY license (<http://creativecommons.org/licenses/by/4.0/>), which permits unrestricted reuse, distribution, and reproduction in any medium, provided the original work is properly cited.

(Received 16th June 2025; Accepted 02nd October 2025; Published 22nd October 2025)

marked by fragmented expectations, uneven capabilities, and evolving stakeholder pressures. While international discourse accelerates around sustainability integration, empirical investigations into national readiness for IFRS S1 and S2 remain scarce. A recent study from Poland, for instance, utilized the Exposure Drafts to assess corporate preparedness but its findings are contextually bounded and less applicable to Southeast Asia (9). In Indonesia, where capital markets span multiple sectors with varying Environmental, social, and governance (ESG) exposures, a sector-sensitive evaluation of disclosure maturity is urgently needed. This study therefore undertakes a diagnostic inquiry into the institutional readiness of Indonesian public companies to adopt IFRS S1 and S2. Drawing on stakeholder theory, legitimacy theory and institutional theory, it explores how national regulations align with international standards, how firm size relates to disclosure adequacy, and how sectoral characteristics influence ESG reporting behaviors (10–13). What is at stake here is not merely technical compliance. Rather, the challenge is interpretive: how global sustainability standards are translated, contested, and localized within the political economy of disclosure in Indonesia. As such, this study positions Indonesia not as an outlier, but as a revealing case in the Global South a setting where climate risk is financial risk, and disclosure becomes a crucible of institutional transformation. While this study centers on Indonesia, it is important to situate the findings within a broader Southeast Asian context. Compared to Malaysia, which has advanced mandatory sustainability reporting through Bursa Malaysia, or Thailand, whose SEC has issued guidance closely aligned with ISSB standards, Indonesia remains in a transitional phase with fragmented regulations. The Philippines, by contrast, continues to rely primarily on voluntary disclosure regimes. These regional contrasts highlight Indonesia's unique challenges and demonstrate the importance of a sector-sensitive evaluation of readiness.

The primary objective of this study is to assess sectoral preparedness for IFRS S1 and S2 adoption in Indonesia, while situating these findings within broader institutional and policy gaps. The study highlights how disclosure readiness varies across industries and underscores the need for both

regulatory alignment and sector-specific benchmarks.

Intersecting Theories: Stakeholders, Legitimacy, and Institutional Pressures

Corporations today operate within a complex web of social, political, and environmental expectations. Stakeholder theory emphasizes that companies are not solely responsible to shareholders, but must engage with regulators, civil society, employees, and communities affected by their actions. Disclosure, in this light, becomes not only an act of transparency but a relational obligation to inform, respond, and remain legitimate (10).

However, the desire to be seen as legitimate may outweigh the drive to disclose substantively. Legitimacy theory suggests that firms may disclose ESG information to maintain appearances, pacify stakeholders, or symbolically align with dominant norms even when the actual substance of sustainability practices remains shallow. This tension between external visibility and internal transformation is particularly acute in transitional economies, where global scrutiny meets institutional fragility (11).

Institutional theory offers a deeper view of how corporate behavior is shaped by three overlapping mechanisms. First, coercive pressures arise from regulatory obligations such as those imposed by Indonesia's OJK. Second, mimetic pressures push companies to emulate peer behavior, especially under uncertainty. Third, normative pressures stem from professional norms and expectations promoted by global standard-setters and local accounting bodies. These forces interlock, producing hybrid logics that influence how firms interpret and implement ESG reporting (12,13).

In the Indonesian context, these institutional pressures vary significantly by sector, firm size, and governance maturity. ESG disclosure cannot be treated as a uniform progression toward best practice, but rather as a differentiated process of alignment mediated by legitimacy, capacity, and regulation.

From CSR Narratives to ESG Accountability

While ESG disclosure is increasingly recognized as a strategic concern, many firms remain anchored in earlier corporate social responsibility (CSR)

traditions. CSR reports are now published by thousands of firms globally, often to demonstrate reputational goodwill rather than risk governance (14–16). This growth reflects both stakeholder pressure and normative diffusion, but also reveals wide variability in substance and quality.

Disclosure of non-financial information is critical to transparency, yet its implementation is inconsistent. Users of company reports still regard financial data as more decisive than ESG narratives, despite growing concern over sustainability issues (17). Even when sustainability information is disclosed, investors often find it insufficient or unreliable (18). Definitional confusion around materiality further weakens the interpretive value of ESG disclosures (19).

Institutional theory helps explain this unevenness. CSR disclosure remains largely voluntary in many settings, leaving firms with great flexibility in format and focus (20). In many contexts, these reports become ceremonial serving legitimacy aims more than performance evaluation (15). This is particularly true in developing economies, where regulatory guidance is less prescriptive and institutional capacity more variable (21).

Nonetheless, ESG disclosure is becoming consequential. It now affects IPO performance, shapes investor perception, and contributes to employee engagement and retention (22, 23). The rise of the Sustainable Development Goals (SDGs) has further institutionalized expectations that firms account for their broader social and ecological impacts (24, 25). Early frameworks such as GRI and SASB have laid critical foundations, but the advent of IFRS S1 and S2 marks a turn toward globally harmonized benchmarks (12).

This study differs from earlier Indonesian research on sustainability reporting, which has largely concentrated on integrated reporting or GRI-based frameworks. By adopting IFRS S1 and S2 alongside the ISSB's Industry-Based Guidance, our analysis provides a novel perspective that evaluates disclosure readiness not just in terms of presence or format, but in relation to internationally harmonized standards with explicit sectoral benchmarks.

IFRS S1 and S2: Toward a Global Language of ESG Disclosure

IFRS S1 and S2, issued by the ISSB, represent a new generation of disclosure standards. IFRS S1 requires companies to disclose all sustainability-related risks and opportunities that could reasonably impact cash flows, cost of capital, or access to finance. IFRS S2 offers sector-specific guidance on climate risk, including governance, scenario analysis, risk management, and performance metrics (26, 27).

Unlike previous voluntary frameworks, these standards are explicitly designed for auditability, comparability, and integration with general-purpose financial reporting. They elevate ESG data to the level of financial materiality, redefining what counts as corporate accountability. This requires more than new data systems it demands cross-functional governance, leadership commitment, and cultural change.

Indonesia's Regulatory Crossroads: Ambition, Fragmentation, and Institutional Response

Indonesia has demonstrated early ambition through the issuance of POJK 51/2017 and SEOJK 16/2021, which mandate ESG disclosures from listed companies. These include reporting on social and environmental responsibilities, stakeholder engagement, and governance structures (7, 8).

However, readiness for IFRS S1 and S2 reveals a deeper misalignment. Mapping studies show that alignment between local regulations and IFRS standards varies significantly across categories some reaching up to 70%, others registering 0% (28). Domestic compliance, therefore, does not ensure global comparability.

In response, the Indonesian Institute of Accountants (IAI) has formed the Sustainability Standards Council (DSK) to support local translation and capacity-building. Yet institutional gaps persist. The transition from fragmented mandates to harmonized frameworks requires not only regulatory convergence but a redefinition of ESG literacy among firms and stakeholders.

Indonesia thus stands at a pivotal crossroads. Its regulatory ambition is notable, but its institutional infrastructure remains underdeveloped. What matters now is whether disclosure becomes a mechanism of transformation or remains a

symbolic artifact in the face of rising sustainability risks.

Methodology

This study adopts a qualitative content analysis approach to investigate the disclosure readiness of Indonesian public companies in response to IFRS S1 and S2. The objective is not merely to confirm the presence of ESG information but to assess the degree to which such disclosures are contextually aligned, substantively adequate, and sector-relevant.

Research Design and Rationale

Qualitative content analysis offers an interpretive lens suited to exploring the substance and context of corporate ESG narratives. It enables the researcher to move beyond surface-level enumeration of disclosures, engaging instead with how risks, opportunities, and sustainability strategies are articulated across a variety of report formats. This method is especially useful in emerging economies, where disclosure maturity is uneven and standardized templates are still evolving (29).

The approach is grounded in the view that sustainability reporting in Indonesia is shaped as much by institutional dynamics as by technical capability. Accordingly, this design avoids the limitations of mechanistic scoring systems and allows for a more nuanced appreciation of reporting quality.

Sample Selection and Sectoral Representation

The study draws on a purposive sample of 22 publicly listed companies from the Indonesia Stock Exchange Industrial Classification (IDX-IC), covering 11 major sectors. Within each sector, two firms were selected: one with the highest total assets and one with the lowest. This stratified design captures variation in organizational size, which serves as a proxy for ESG capacity, governance structure, and resource endowment. The selection strategy also ensures sectoral diversity, allowing for horizontal comparisons across industries as well as vertical contrasts within them. It reflects the assumption that ESG disclosure practices are influenced not only by firm characteristics but also by sector-specific exposure to sustainability risk.

Disclosure Framework and Analytical Instrument

The study's assessment framework draws from three normative sources: IFRS S1, IFRS S2, and the ISSB's Industry-Based Guidance (IBG). IFRS S1 outlines general requirements for sustainability-related financial disclosures, while IFRS S2 provides climate-specific reporting expectations. The IBG contributes sector-specific indicators, highlighting what matters most in different industrial contexts.

A total of 113 disclosure items (45 from IFRS S1 and 68 from IFRS S2) were evaluated using a three-point scale: Not Disclosed, Disclosed but Inadequate, Adequately Disclosed.

This scoring logic captures both the presence and the quality of disclosure. Items were deemed inadequate if they lacked specificity, quantification, or stakeholder relevance, even if disclosure technically occurred. Adequate disclosures provided concrete, decision-useful information that aligned with the intent of the standards.

Preparedness in this study is assessed not only through the existence of sustainability reports but also through their conformity to IFRS S1 and S2, IBG indicators, and contextual alignment with national regulations. While prior studies have emphasized GRI or TCFD compliance, our framework incorporates both international disclosure requirements and internal corporate governance structures, thereby capturing a fuller picture of institutional readiness.

Reliability and Validity Measures

To ensure reliability, two independent coders with expertise in financial and sustainability reporting conducted the assessments. A pilot coding round was conducted to standardize interpretations, followed by consensus meetings to reconcile discrepancies. Final inter-rater agreement exceeded 90%, reinforcing the credibility of the coding process (29). Construct validity was ensured by grounding the instrument in formal IFRS guidance and IBG sectoral expectations. Contextual validity was enhanced by referencing national regulatory frameworks, specifically POJK 51/2017 and SEOJK 16/2021, which govern sustainability disclosure practices for Indonesian public companies. This methodological triangulation strengthens the study's ability to interpret Indonesian ESG disclosures in light of

both global standards and local institutional frameworks (28).

Sample

The study sample includes 22 publicly listed companies selected through stratified sampling based on asset size under the IDX Industrial

Classification. Each of the 11 sectors features one firm with the highest and one with the lowest total assets, reflecting variations in financial scale, disclosure capacity, and ESG governance. This method ensures broad representation across asset profiles and sectoral ESG risk exposures. Company names and classifications are in Table 1.

Table 1: Sample Companies Classified by Industry Sector and Asset Size (IDX-IC)

Sectors on IDX	Assets Category	Stock Code
Consumer non-cyclicals	Highest	INDF
	Lowest	NASI
Consumer Cyclicals	Highest	IMAS
	Lowest	LPIN
Properties and Real Estate	Highest	BSDE
	Lowest	IPAC
Basic Materials	Highest	BRPT
	Lowest	KKES
Industrials	Highest	ASII
	Lowest	TIRA
Energy	Highest	ADRO
	Lowest	AIMS
Technology	Highest	GOTO
	Lowest	WGSB
Transportation and Logistic	Highest	GIAA
	Lowest	HELI
Infrastructures	Highest	TLKM
	Lowest	OASA
Healthcare	Highest	KAEF
	Lowest	MERK
Financials	Highest	BMRI
	Lowest	BBSI

Results

This section presents the empirical findings of the content analysis, structured into three analytical dimensions: sectoral performance under IFRS S1, performance under IFRS S2, and alignment with ISSB's Industry-Based Guidance. A fourth segment highlights how asset size influences disclosure adequacy across sectors. The results uncover not only differences in disclosure volume but also meaningful asymmetries in institutional capacity, governance commitment, and sectoral legitimacy.

Sectoral Performance on IFRS S1

Table 2 summarizes firms' disclosure adequacy scores under IFRS S1. High-asset companies generally outperformed their low-asset counterparts, though with notable exceptions. The Industrials sector (ASII) demonstrated 76%

adequacy far ahead of its low-asset peer TIRA, which disclosed adequately on only 9% of items. Yet this pattern was not uniform. In the Financials sector, for example, the difference in performance was narrower, despite both firms falling short of full compliance.

These results suggest that while asset size may influence disclosure capability, it is insufficient on its own. ESG reporting maturity appears to reflect not only resource availability but the degree to which sustainability principles are embedded in corporate strategy and organizational culture. Across sectors, disclosures were frequently present but inadequate dominated by generic language, unsupported commitments, and minimal quantification. This trend reflects an early stage of ESG integration where firms prioritize symbolic alignment over material specificity.

Table 2: Sectoral Disclosure Adequacy under IFRS S1

Sector	Company Type	Not Disclosed	Inadequate	Adequate
Consumer Non-Cyclicals	High Asset	9%	73%	18%
	Low Asset	29%	49%	22%
Consumer Cyclicals	High Asset	40%	29%	31%
	Low Asset	51%	38%	11%
Properties and Real Estate	Highest	24%	47%	29%
	Lowest	44%	51%	4%
Basic Materials	Highest	7%	31%	62%
	Lowest	27%	24%	49%
Industrials	High Asset	9%	16%	76%
	Low Asset	47%	44%	9%
Energy	Highest	9%	87%	4%
	Lowest	67%	33%	0%
Technology	High Asset	7%	93%	0%
	Low Asset	20%	80%	0%
Transportation and Logistic	High Asset	7%	87%	7%
	Low Asset	4%	69%	27%
Infrastructures	Highest	4%	76%	20%
	Lowest	7%	73%	20%
Healthcare	Highest	20%	42%	38%
	Lowest	42%	20%	38%
Financials	High Asset	18%	42%	40%
	Low Asset	42%	44%	13%

Sectoral Performance on IFRS S2

As shown in Table 3, disclosure adequacy under IFRS S2 focused specifically on climate-related information was consistently lower across the board. Even high-asset companies struggled to meet adequacy thresholds. The Healthcare sector stood out: both KAEF and MERK achieved the highest adequacy scores (38%), despite their divergent asset scales. In contrast, sectors such as Consumer Cyclicals, Energy, and Technology saw near-zero adequacy, regardless of size.

These findings reinforce the insight that climate-related disclosure is not yet institutionalized, even among Indonesia's largest firms. The persistent gaps suggest that firms often lack both the technical capacity and governance integration necessary to address climate-specific reporting mandates. The contrast between the symbolic language of climate commitment and the absence

of material disclosures points to a decoupling phenomenon where form does not reflect function. The results also underscore how sectoral norms and public expectations may exert greater influence than firm size alone. Where legitimacy demands are high as in Healthcare disclosure depth appears more advanced, even in resource-constrained contexts. Across industries, Healthcare emerged as the most prepared sector under both IFRS S1 and S2, demonstrating higher adequacy scores despite resource constraints. In contrast, the Energy and Technology sectors consistently reported the lowest adequacy levels, indicating substantial disclosure gaps. These results suggest that institutional pressures, public legitimacy concerns, and professional norms may explain why some industries are relatively more advanced, while others remain at an early stage of integration.

Table 3. Sectoral Disclosure Adequacy under IFRS S2

Sector	Company Type	Not Disclosed	Inadequate	Adequate
Consumer Non-Cyclicals	High Asset	60%	25%	15%
	Low Asset	100%	0%	0%
Consumer Cyclicals	High Asset	100%	0%	0%

Properties and Real Estate	Low Asset	74%	13%	13%
	Highest	97%	3%	0%
	Lowest	94%	0%	6%
Basic Materials	Highest	82%	4%	13%
	Lowest	100%	0%	0%
Industrials	High Asset	44%	47%	9%
	Low Asset	91%	7%	1%
Energy	Highest	31%	69%	0%
	Lowest	88%	12%	0%
Technology	High Asset	34%	66%	0%
	Low Asset	50%	50%	0%
Transportation and Logistic	High Asset	37%	59%	4%
	Low Asset	50%	35%	15%
Infrastructures	Highest	53%	31%	16%
	Lowest	53%	22%	25%
Healthcare	Highest	68%	10%	22%
	Lowest	57%	18%	25%
Financials	High Asset	76%	18%	6%
	Low Asset	60%	25%	15%

IBG-Conformity and Sectoral Benchmarking

Table 4 illustrates firm performance relative to the sector-specific expectations outlined in the ISSB's Industry-Based Guidance (IBG). The IBG enables a more targeted benchmark by identifying ESG issues deemed material for each sector. When disclosures were matched against these expectations, high-asset firms demonstrated adequacy on only 12% of sector-relevant items, while low-asset firms reached just 2%. Notably, the Healthcare sector again emerged as a positive outlier. KAEF disclosed adequately on 38% of IBG-

defined indicators, the highest among all sampled firms. Meanwhile, several sectors such as Energy, Technology, and Transportation reported zero adequate disclosures under IBG alignment, regardless of asset base.

These findings reveal a sharp discrepancy between the appearance of disclosure completeness and its sectoral materiality. While firms may report at volume, they often overlook what is materially significant for their industry. The IBG thus proves valuable not only as a technical tool, but as a diagnostic lens for assessing the institutional maturity of ESG logic across firms.

Table 4: Sectoral IBG Conformity: Adequate Disclosures vs. Expected Items

Sector	IBG Volume	Expected Items	Conformity Percentage	
			High Assets	Low Assets
Consumer Non-Cyclicals	Volume-22-Food-Retailers-And-Distributors-Part-B	17	12%	0%
Consumer Cyclicals	Volume-63-Automobiles-Part-B	7	0%	14%
Properties and Real Estate	Volume-36-Real-Estate-Part-B	25	12%	0%
Basic Materials	Volume-47-Chemicals-Part-B	15	27%	0%
Industrials	Volume-6-Multiline-And-Specialty-Retailers-And-Distributors-Part-B	7	29%	0%
Energy	Volume-7-Coal-Operations-Part-B	12	0%	0%
Technology	Volume-58-Software-And-It-Services-Part-B	18	0%	0%

Transportation and Logistic	Volume-61-Airlines-Part-B	11	0%	0%
Infrastructures	Volume-59-Telecommunication-Services-Part-B	11	0%	0%
Healthcare	Volume-27-Drug-Retailers-Part-B	8	38%	13%
Financials	Volume-16-Commercial-Banks-Part-B	25	12%	0%

Analysis of Disclosure Pattern on Assets Size based on Industry Category

A cross-cutting analysis by asset size highlights structural disparities in ESG reporting. High-asset companies consistently outperformed their smaller counterparts in disclosure adequacy, yet even among large firms, performance remained uneven and rarely comprehensive.

In sectors such as Basic Materials and Industrials, high-asset firms achieved relatively strong IBG conformity 27% and 29%, respectively. In contrast, Technology, Energy, and Infrastructure sectors reported zero adequacy regardless of size. Low-asset companies, in particular, showed minimal or no alignment with IBG across nearly all sectors, with only minor exceptions in Healthcare and Consumer Cyclical.

These results suggest that while financial scale contributes to disclosure capability, it does not guarantee sectoral relevance. More importantly, smaller firms face systemic challenges that go beyond resource constraints including lack of regulatory clarity, limited internal expertise, and weak stakeholder pressure.

The persistence of low adequacy levels especially among firms operating in high-risk sectors raises concerns about the current state of ESG readiness. It also underscores the need for capacity-building interventions tailored to both sectoral materiality and firm size. Technical guidance alone is unlikely to close these gaps; what is needed is institutional commitment and cross-functional accountability.

Discussion

This section interprets the empirical findings through the theoretical lenses of stakeholder theory, legitimacy theory, and institutional theory. Rather than merely confirming disclosure gaps, the discussion aims to illuminate how sectoral norms, legitimacy dynamics, and institutional architectures shape ESG practices in Indonesia's corporate landscape. The findings do not simply reflect reporting variance they expose deeper

tensions between symbolic alignment and substantive accountability.

Institutional Frictions and Sectoral Logics

The marked differences in disclosure performance across sectors reveal more than firm-level disparities they illustrate how institutional logics produce uneven ESG trajectories. High-asset firms such as ASII and BMRI generally performed better, consistent with institutional theory's emphasis on coercive and mimetic pressures to conform with regulatory and peer expectations (12,13). Yet even these firms exhibited incomplete alignment, suggesting that formal adoption does not always equate to internalization.

The Healthcare sector stands out. Despite lower asset resources, firms like MERK achieved high adequacy levels, reflecting the power of legitimacy pressures and ethical salience in shaping disclosure behavior. In sectors where public trust and regulatory scrutiny are high, firms appear more responsive to societal expectations, regardless of financial strength (10,11).

These findings reinforce the view that ESG disclosure is not merely a function of resource availability. In sectors with heightened legitimacy pressures, such as healthcare and logistics, disclosure practices are often shaped by relational accountability and reputational sensitivities. These factors are frequently underappreciated in technocratic assessments of organizational readiness. Moreover, employee dynamics appear to play an enabling role. In mission-driven environments with strong engagement cultures, internal stakeholders may informally advocate for enhanced ESG transparency (30,31). Accordingly, managerial efforts toward sustainability reporting should align with the strategic pathways articulated in SDG 12, ensuring both operational relevance and normative legitimacy (32).

These sectoral differences point to the influence of risk profiles, global exposure, and regulatory environments. For example, Healthcare firms, operating under strong legitimacy pressures and

ethical scrutiny, have advanced faster in disclosure maturity. Conversely, Energy firms face higher technical complexity and political sensitivity, which may explain their weaker performance.

Technology firms, despite global exposure, lack established sectoral guidance and internal expertise, contributing to disclosure gaps. These findings highlight that readiness is not solely resource-driven, but shaped by sectoral logics and institutional pressures.

From Formalism to Relevance: The Role of IBG

A key contribution of this study lies in its application of the ISSB's Industry-Based Guidance (IBG), which reframes disclosure evaluation from formal compliance to sectoral materiality. While prior studies have focused on disclosure quantity or coverage, the use of IBG surfaces a deeper insight: what matters is not just what firms disclose, but whether they report what matters (9). Overall, high-asset firms aligned with only 12% of IBG-recommended items; low-asset firms, 2%. Yet KAEF's 38% alignment despite moderate size demonstrates that institutional coherence and normative clarity can outperform financial capacity. The IBG thereby functions not only as a technical benchmark but as a mirror of institutional maturity.

What emerges is a call to move beyond checkbox compliance. The goal is not merely to meet disclosure quotas, but to embed sector-specific ESG concerns into strategic governance. The IBG helps highlight these asymmetries and provokes questions about what disclosure quality really entails in context.

When viewed against other G20 members and peer emerging economies, Indonesia's overall preparedness remains moderate. Countries such as South Africa, Brazil, and India have advanced sectoral disclosure practices through a combination of regulatory mandates and investor activism. Compared to these contexts, Indonesia's progress is notable but fragmented, reflecting a transitional stage where institutional ambition is present but not yet matched by technical depth or enforcement capacity.

Implications for Practice, Policy, and Implementation

For corporate actors, the message is clear: ESG disclosure is not a matter of isolated compliance but a strategic infrastructure of legitimacy. High-

performing firms integrate ESG into risk management, governance, and long-term value creation not just as a reporting task, but as a means of stakeholder engagement and strategic coherence.

For regulators, the persistent misalignment between OJK mandates (POJK 51/2017; SEOJK 16/2021) and IFRS standards demands urgent response. Without updated, sector-specific guidance tied to IBG logic, companies face a dual burden: satisfying local norms while aspiring toward global comparability (12).

Finally, professional and academic institutions must expand their role in building ESG competencies across sectors especially for small and under-resourced firms. Capacity-building cannot rely solely on technical training; it must also foster institutional literacy and normative alignment with sustainability goals.

Another consideration concerns corporate concerns about compliance costs. Many firms perceive IFRS S1 and S2 adoption as resource-intensive, requiring investments in data systems, training, and assurance processes. Yet from an investor perspective, the value of improved climate-related disclosures outweighs these costs, as transparent information on risk management, scenario analysis, and sectoral vulnerabilities enhances capital allocation and reduces uncertainty. In this sense, compliance expenditures should be reframed as strategic investments in legitimacy and market confidence.

Reframing Readiness as Institutional Translation

Rather than defining readiness in terms of capacity or checklist fulfillment, this study proposes an alternative lens: institutional translation. Readiness, in this view, is the degree to which global standards are meaningfully absorbed and contextualized within national and sectoral ecosystems. It is not a linear progression but a negotiated process of interpretation, adaptation, and internalization.

This reframing deepens existing frameworks by highlighting that ESG implementation is not merely a managerial task it is a political and cultural process embedded in sectoral narratives, stakeholder logics, and evolving norms. As such, disclosure becomes more than a report it becomes a site of institutional learning, contestation, and redefinition..

Conclusion

The study's main contribution lies in clarifying that its central goal is to evaluate sectoral preparedness for IFRS S1 and S2 adoption in Indonesia. By framing readiness through a sectoral lens, while acknowledging institutional and compliance gaps, the study offers a more nuanced understanding of how global standards are translated into local contexts. This study investigated the ESG disclosure readiness of Indonesian public companies in light of IFRS S1 and S2, using qualitative content analysis across 22 firms in 11 sectors. The findings revealed a fragmented disclosure landscape, where formal compliance often masks a lack of sectoral relevance and institutional depth. While large firms generally performed better, exceptions like the Healthcare sector demonstrated that legitimacy pressures and ethical accountability can drive meaningful disclosure even in resource-constrained settings. The use of the ISSB's Industry-Based Guidance (IBG) allowed for a sharper diagnosis of sectoral misalignment. Many firms reported broadly on sustainability themes but neglected issues deemed material within their respective industries. This disconnect highlights a systemic weakness: ESG disclosure in Indonesia often prioritizes form over substance, reflecting institutional isomorphism rather than strategic engagement. Without clearer interpretive frameworks, even well-intentioned disclosures risk becoming symbolic gestures. These findings challenge the assumption that ESG readiness is merely a function of capacity or regulation. Instead, they point to a more complex reality in which sectoral logics, stakeholder expectations, and normative coherence determine disclosure quality. The study thus reframes readiness as a process of institutional translation where global standards must be adapted, internalized, and rendered meaningful within national governance and cultural contexts. Going forward, both regulators and firms must rethink their roles. Regulators should develop sector-specific guidance aligned with IBG principles, while companies must view ESG not as a reporting obligation but as an infrastructure of legitimacy and strategic accountability. For emerging economies like Indonesia, the challenge is not to catch up to global standards, but to redefine them through context-aware implementation making ESG reporting a credible

reflection of institutional maturity, not just another ritual of compliance.

Abbreviations

IFRS: International Financial Reporting Standards, ISSB: International Sustainability Standards Board, IDX-IC: Indonesia Stock Exchange Industrial Classification, SDGs = Sustainable Development Goals, GRI: Global Reporting Initiative, SASB: Sustainability Accounting Standards Board, CSR: Corporate Social Responsibility, OJK: Otoritas Jasa Keuangan, POJK: Peraturan Otoritas Jasa Keuangan, ESG: Environmental, social, and governance.

Acknowledgment

We extend our sincere gratitude to all individuals and institutions who supported the implementation of this research in Indonesia. Their involvement was critical to the successful completion of this study.

Author Contributions

Amelia Setiawan: conceptualization, methodology, formal analysis, investigation, writing original draft preparation, Haryanto Haryanto: conceptualization, methodology, resources, writing review and editing, supervision, project administration, Agung Noegroho Soedibyo: conceptualization, writing review and editing, Samuel Wirawan: formal analysis, writing review and editing, visualization, Hamfri Djajadikerta: methodology, supervision, Sandra Faninda: writing review and editing, visualization, Mardiana Mardiana: formal analysis, investigation, resources. All authors have read and approved the final version of the manuscript and agree to be accountable for all aspects of the work.

Conflict of Interest

The authors declare that there are no competing interests that could have influenced the research outcomes.

Declaration of Artificial Intelligence (AI) Assistance

The authors declare that they did not use AI-assisted tools (ChatGPT, OpenAI etc) during the writing process.

Ethics Approval

This study did not involve human participants and thus did not require formal ethical approval.

Funding

This research was conducted without any financial support from external funding bodies.

References

- Krambia-Kapardis M, Savva CS, Stylianou I. Socio-Economic Factors Affecting ESG Reporting Call for Globally Agreed Standards. *Sustainability*. 2023;15(20):14927.
- Ang JS, Chen WM, Li S, Wang L. Gaming governance: cosmetic or real corporate governance changes? *Rev Quant Financ Account*. 2022 Jul 2;59(1):91–121.
- IFRS S1 - IFRS Sustainability Disclosure Standard - General Requirements for Disclosure of Sustainability-related Financial Information, 1 (2023). <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/>
- IFRS S2 - Sustainability Disclosure Standard - Climate-related Disclosures, 1 (2023). <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/>
- Kaur K, Singh K. Corporate Disclosure Through Web: an Empirical Study To Examine the Potential Benefits of Corporate Disclosure Through Web. *J Commer Account Res*. 2019;8(3):64–74.
- Haj-Salem I, Damak Ayadi S, Hussainey K. The joint effect of corporate risk disclosure and corporate governance on firm value. *Int J Discl Gov*. 2020;17(2–3):123–40.
- Otoritas Jasa Keuangan Republik Indonesia. Peraturan Otoritas Jasa Keuangan Nomor 51 /Pojk.03/2017 Tentang Penerapan Keuangan Berkelanjutan Bagi Lembaga Jasa Keuangan, Emiten, Dan Perusahaan Publik. Indonesia; 2017 p. 1–15. <https://peraturan.bpk.go.id/Details/129651/peraturan-ojk-no-51poj032017-tahun-2017>
- Otoritas Jasa Keuangan. Surat Edaran Otoritas Jasa Keuangan Republik Indonesia Nomor 16 /Seojk.04/2021 Tentang Bentuk Dan Isi Laporan Tahunan Emiten Atau Perusahaan Publik. Indonesia; 2021 p. 1–92. <https://ojk.go.id/id/regulasi/Pages/Bentuk-dan-Isi-Laporan-Tahunan--Emiten-atau-Perusahaan-Publik.aspx>
- Indyk M. Are the Companies Prepared for Sustainability Reporting under the ED IFRS S1 and S2? Evidence from Poland. *Audit Financ*. 2022;XX(4):641–54.
- Qasem A, AL-Duais SD, Wan-Hussin WN, Bamahros HM, Alquhaif A, Thomran M. Institutional Ownership Types and ESG Reporting: The Case of Saudi Listed Firms. *Sustain*. 2022;14(18):1–24.
- Jámbor A, Zanócz A. The Diversity of Environmental, Social, and Governance Aspects in Sustainability: A Systematic Literature Review. *Sustainability*. 2023 Sep 20;15(18):13958.
- Shen S, Xie J, Fujii H, Keeley AR, Managi S. Does environmental materiality matter to corporate financial performance: Evidence from 34 countries. *Corporate Social Responsibility and Environmental Management*. 2025; 32(2): 2390–2411. <https://doi.org/10.1002/csr.3062>
- Sisaye S. The organizational ecological resource framework of sustainability reporting: implications for corporate social reporting (CSR). *Journal of Business and Socio-Economic Development*. 2022;2(2):99–116.
- El-Bassiouny D, El-Bassiouny N. Diversity, corporate governance and CSR reporting: A comparative analysis between top-listed firms in Egypt, Germany and the USA. *Manag Environ Qual An Int J*. 2019;30(1):116–36.
- Haji AA, Coram P, Troshani I. Consequences of CSR reporting regulations worldwide: a review and research agenda. *Accounting, Audit Account J*. 2023;36(1):177–208.
- Liang X, Dai L, Xie S. Examining the social pressures on voluntary CSR reporting: the roles of interlocking directors. *Sustain Accounting, Manag Policy J*. 2022;13(3):653–79.
- Faccia A, Manni F, Capitanio F. Mandatory ESG Reporting and XBRL Taxonomies Combination: ESG Ratings and Income Statement, a Sustainable Value-Added Disclosure. *Sustainability*. 2021 Aug 9;13(16):8876.
- Abela M. “A new direction? The ‘mainstreaming’ of sustainability reporting.” *Sustain Accounting, Manag Policy J*. 2022;13(6):1261–83.
- Gulko N, Hyde C. Corporate perspectives on CSR disclosure: audience, materiality, motivations. *Int J Discl Gov*. 2022;19(4):389–412.
- Oware KM, Worae TA. Sustainability (disclosure and report format) and firm performance in India. Effects of mandatory CSR reporting. *Cogent Bus Manag*. 2023;10(1):1–23.
- Jahid MA, Yaya R, Pratolo S, Pribodi F. Institutional factors and CSR reporting in a developing country: Evidence from the neo-institutional perspective. *Cogent Bus Manag*. 2023;10(1):1–28. <https://doi.org/10.1080/23311975.2023.2184227>
- Ferri S, Tron A, Colantoni F, Savio R. Sustainability Disclosure and IPO Performance: Exploring the Impact of ESG Reporting. *Sustainability*. 2023;15(6):5144.
- Tsourvakas G, Yfantidou I. Corporate social responsibility influences employee engagement. *Soc Responsib J*. 2018;14(1):123–37.
- Oware KM, Mallikarjunappa T. CSR expenditure, mandatory CSR reporting and financial performance of listed firms in India: an institutional theory perspective. *Meditari Account Res*. 2022;30(1):1–21.
- Nielsen C. ESG Reporting and Metrics: From Double Materiality to Key Performance Indicators. *Sustainability*. 2023 Dec 14;15(24):16844.
- Gaviria DAG, Martínez EMC, Polo OCC, Arcila JOS. Accounting Mechanism to Measure the Environmental Impact of Industries in the Aburrá Valley and its Application of the General Disclosure Requirements Related to Financial Information on Sustainability (IFRS S1) and Climate-Related Disclosures (IFRS S2). *Rev Gestão Soc e Ambient*. 2023 Jun 30;17(5):e03639.
- Silva AP, Fontes A, Menezes C, Montenegro TM. Transitioning to an IFRS-Based Accounting System: Longitudinal Insights from Practitioners in Portugal. *Sustainability*. 2023 Oct 21;15(20):15121.
- Setiawan A, Soedibyo AN, Wirawan S, Haryanto H, Djajadikerta H, Faninda S. The Mapping of IFRS S1 and S2 with SEOJK-16-2021. In: *The 2nd*

- International Conference On Economics, Business, And Management Research (ICEBMR). Yogyakarta: Faculty of Economics, Sanata Dharma University; 2023. p. 343–53.
<https://doi.org/https://doi.org/10.5281/zenodo.17385568>
29. Krippendorff K. Content Analysis: An Introduction to Its Methodology. 4th ed. Content Analysis: An Introduction to Its Methodology. 2455 Teller Road, Thousand Oaks California 91320: SAGE Publications, Inc.; 2019. 472 p.
<https://methods.sagepub.com/book/mono/content-analysis-4e/toc>
 30. Aljebrini A, Dogruyol K, Ahmaro IYY. How strategic planning enhances ESG:Evidence from mission statements. Sustainability. 2025;17(2):595.
<https://doi.org/10.3390/su17020595>.
 31. Awuah B, Yazdifar H, Elbardan H. Corporate reporting on the Sustainable Development Goals: A structured literature review and research agenda. J Account Organ Chang. 2024;20(4):617–46.
<https://doi.org/10.1108/JAOC-10-2022-0155>
 32. Bauer P, Greiling D. Management Controls for Contributing to the Promotion of Sustainable Development in Public Sector Organizations Status Quo and Further Research. Sustain Dev. 2025;33(3):3246–65.
<https://doi.org/10.1002/sd.3292>.

How to Cite: Setiawan A, Haryanto H, Soedibyo AN, Wirawan S, Djajadikerta H, Faninda S, Mardiana M. Institutional Translation and Sectoral Readiness: Localizing IFRS S1 and S2 in Indonesia. Int Res J Multidiscip Scope. 2025; 6(4):410-421. doi: 10.47857/irjms.2025.v06i04.06292