

## Materiality Disclosure Compliance in The 2021 at Provincial Banks Sustainability Report

Tania Martina Chika<sup>1</sup>, Carmel Meiden<sup>2</sup>

Institut Bisnis dan Informatika Kwik Kian Gie<sup>1,2</sup>

Jl. Yos Sudarso Kav 85 No.87, North Jakarta 14350, Indonesia

Correspondence Email: [chikanababan11@gmail.com](mailto:chikanababan11@gmail.com)

ORCID ID: 0009-0003-3483-0133

### ARTICLE INFORMATION

#### Publication information

##### Research article

##### HOW TO CITE

Chika, T.M., & Meiden, C. (2023).  
Materiality Disclosure Compliance in the  
2021 at Provincial Banks Sustainability  
Report. *Journal of International  
Conference Proceedings*, 6(1), 192-200.

##### DOI:

<https://doi.org/10.32535/jicp.v6i1.2252>

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Published by JICP



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Received: 23 February 2023

Accepted: 20 March 2023

Published: 27 March 2023

#### ABSTRACT

The study employs a qualitative approach to analyze how provincial banks define materiality, take into account stakeholders, and pinpoint material issues.. The study is focused on nine state banks. A case study research approach using materiality assessment variables was adopted. The sampling strategy used was called targeted sampling. Data analysis techniques used include data reduction, data visualization, and inference. Landesbank defines materials as critical issues with significant impact. Customers are the most influential stakeholders. The most important material issues for organizations are related to social issues. Landesbank's materiality assessment is good, but clearly needs improvement. Banks with already-good materiality ratings can be kept, while provincial banks with still-poor materiality ratings can have their ratings raised.

**Keywords:** Materiality, Stakeholders, Sustainability Report

## INTRODUCTION

According to Mooney (2018), Materiality is an accounting information characteristic that focuses on the relevance of information in decision-making. A critical mistake occurs when the number of inaccuracies in a report is big enough to impair the decision-making process. According to (Taubken & Feld, 2018), Look at a sustainability topic from the perspective of their stakeholders, but also assess their own influence on the topic. Materiality assessments are a common way to assess this. During the review process, companies not only determine the materiality of accounting information, but also focus on the information's importance to decision-making. A critical mistake occurs when the number of inaccuracies in a report is big enough to impair the decision-making process.

Materiality refers to an organization's most important (positive or bad) influence on the economy, environment, or society. Business sustainability reports frequently include data on a firm's economic, social, and environmental performance. The bulk of management generates GRI-compliant corporate sustainability reports. The GRI Guidelines establish standards for developing the content of a sustainability report. Stakeholder inclusivity, sustainable context, materiality, and completeness are among these concepts. Materiality is typically seen as a threshold for influencing the economic actions of individuals who utilize organizational financial reports, particularly investors, according to (GRI, 2016). The sustainability report defines materiality as the concept used to pick relevant material concerns by taking into account aspects that are essential enough to be revealed. According to the Global Sustainability Standards Board, the firm must offer an explanation of how the materiality principle is implemented when selecting material subjects (GSSB, 2016). GSBB (2013) gives thorough recommendations for identifying relevant elements and subjects in the materiality evaluation. The GRI G4 Guidelines outline a four-step procedure for planning and implementing materiality. The guide establishes the following material features and boundaries: (1) identification; (2) priority; (3) validation; and (4) review.

The COVID-19 outbreak has had a substantial impact on life in almost every country. The epidemic has resulted in a global recession. According to (Hörisch, 2021), The pandemic is considered as a problem, and it has similarities with important long-term development challenges. Because actions done today may have long-term consequences, the pandemic may drive governments to look long term. A pandemic is a worldwide hazard that threatens and affects all groups, save those who are vulnerable, such as the poor, unemployed, or living in developing countries. As a result, how various organizations, particularly public corporations, respond to this sustainability issue as part of CSR implementation is crucial. The most important thing for a company to do when implementing CSR is to conduct a materiality assessment.

Internationally, materiality research on sustainability reporting has been conducted. Numerous prior studies, including research done by (Guix, Font, & Bonilla-Priego, 2019), reveal that managers who become informants avoid sharing materiality criteria and decision-making procedures, as well as how to gather input from stakeholders, when questioned. They usually confine themselves to disclosing information about the sustainability reporting process. According to experts, the hotel business is unsystematic and lacks clarity in the decision-making and assessment of control over corporate interests. performed research (Machado, Dias, & Fosenca, 2021) According to the findings of this study, the identification of material topics in sustainability reporting remains ambiguous, brief, and haphazard, leaving organizations with a lot of room to adjust materiality to the company's political priority values. In the context of a certain industry, criteria for identifying the approaches and processes used to classify stakeholders must also be created. The income level of the firm has no effect on the openness of the materiality study.

Then, according to the research (Beske, Haustein, & Lorson, 2020), materiality reporting still lacks specificity in describing what transpired. Companies have the ability to abuse materiality analysis owing to confusing reporting and practices. To better identify stakeholders and material themes, reporting businesses must be able to learn approaches from other organizations. According to (Putri, Meiden, Dema, Suhartono, & Dasawaty, 2022) According to research, the banking industry's materiality judgment is fairly excellent, yet there is still much potential for improvement. Issuers with high materiality ratings are expected to keep them, while those with lower ratings can raise them.

The results of the research (Restu & Sungloria, 2022) suggest that the consumer products business's materiality is fairly strong, but there is still significant room for development in future evaluations. Materiality should be maintained for issuers who have implemented it properly, and enhanced for those who have not. The findings of a research undertaken by (Ningsih & Meiden, 2022) reveal the notion of materiality in 14 corporations' sustainability reports, with three companies failing to offer a description of materiality in their sustainability reports. The materiality evaluation process involves a variety of parties. Not all firms indicate the engagement of their stakeholders in the materiality evaluation at various phases of the process. In a materiality study, the corporation offered numerous concerns as material themes. Most businesses have classified the identified challenges as social, environmental, or economic. Six of the fourteen firms express the key material difficulties by categorizing them as "High", "Mid", and "Low".

Based on the description, the researchers wish to perform a qualitative examination into the problem of CSR, particularly its significance. The project has been chosen as a provincial bank. Banking is one of the few businesses that has escaped this epidemic unharmed. Banks continue to be a major tourist destination. There is considerable scholarly interest in how the banking sector is dealing to key current concerns that may influence operations and stakeholders, particularly during the pandemic, with emerging trends such as telecommuting, home banking, digitalization, and so on. According to (Creswell, Hanson, Clark Plano, & Morales, 2007) In qualitative research, researchers describe research questions that can be understood by immersing themselves in the subject or phenomenon being studied. This study used a qualitative approach to better understand how material in an issuer's sustainability report is defined, how stakeholder engagement works, and what key difficulties are identified.

## **LITERATURE REVIEW**

### **Stakeholder Theory**

According to (Freeman & David, 1983), stakeholder has two definitions and two related meanings. Both a broad meaning that covers both well-intentioned and malicious groups, and a specific meaning that captures the essence of his SRI with a narrower focus. Groups, individuals or organizations (public interest groups, protest groups, government agencies, industry groups, competitors, employees, customers, shareholders, others are stakeholders). (GRI, 2016) found that media scrutiny, participation in the scientific community, and working on projects with colleagues and other stakeholders are all effective ways to implement a stakeholder engagement plan claim. This comprehensive process enables us to completely comprehend our stakeholders' information requirements. Through rigorous engagement, organizations can learn and become more accountable. These builds trust between the company and stakeholders, making the report more credible. There are three stages in the progressive expansion of stakeholder participation, according to (Bellucci & Manetti, 2018). Businesses identify their primary and secondary stakeholders in the first stage, and then strive to respond to stakeholder

expectations in the second phase by balancing opinions on social, environmental, and economic issues. In the third phase, the organization involves stakeholders in the decision-making process by exchanging ideas and information through shared commitments, viewing this as shared accountability for the actions taken.

### **Materiality**

The most serious or important impact that an organization has on the economy, environment, or society is known as materiality (positive or negative). A corporation examines the importance of sustainability problems from a stakeholder viewpoint as well as its own effect on the subject through a materiality assessment. Engaging stakeholders is crucial when performing materiality analyses. Stakeholders only have two sides. The first is interest, which ranges from financial or market share interests to stock interests to influencer interests. The second category comprises factors that have both political and economic sway, such as shareholder voting rights and consumer political or economic sway. Customers, suppliers, and workers all possess economic power because they may affect choices made by the market. Political power is economic power used to the political process. Governments and interest groups decide who has political power. Official authority rests with the board of directors and shareholders. Stakeholders can have different powers and interests. Employees can be investors, customers, or even influencers.

### **Sustainability Report Guidelines**

The GRI Standards enable businesses and stakeholders to communicate and appreciate an the economic, environmental, and social consequence of the organization. This standard intends to improve the organization's accountability and openness while also raising the caliber and comparability of the data concerning these results on a global basis. These recommendations were made largely to help organizations produce sustainability reports that follow reporting principles and put a focus on material concerns (GRI, 2016).

### **Sustainability Report**

A sustainability report is a public document that contains information about the economic, financial, social, and environmental efficiency of FSIs, issuers, and publicly traded firms that engage in sustainable business practices (Peraturan Otoritas Jasa Keuangan, 2017). The process of assessing, explaining, and holding stakeholders accountable for an organization's performance in accordance with the SDGs is known as sustainability reporting. Sustainability reports are created using two principles: the notion of substance and the principle of quality. According to Purnomo and Davianti (2022), by publishing a sustainability report, the company will get benefits that will improve its sustainability performance and motivate its employees to build a credible company.

## **RESEARCH METHOD**

The Provincial Bank, which encompasses nine provincial banks, is the subject of this study. One issuer represents each province. In this study, the case study research design was used. A case study, as it is currently known, is a research design that focuses on acquiring information on a specific object, event, or activity. The researcher's emphasis or case in this study is the materiality examination of nine provincial banks. A research variable is anything that may differentiate or include distinct values. Values might vary for the same thing or person at various times, or for multiple objects or persons at the same moment. In order to get the data needed for this study and to assess the sustainability report released by the provincial bank in 2021, the data-collecting approach for this research employs a literature observation technique. The information comes from the province sample bank's official website. The purposive sampling strategy was utilized in this investigation. According to (Sekaran & Bougie, 2019), Textual data is qualitative

data. Qualitative data includes interview transcripts, focus group transcripts, open-ended question replies, videotapes, Internet product experience reports, articles, news items, and anything else. People, focus groups, corporate records, government publications, and the Internet are all examples of primary and/or secondary data sources. The goal of qualitative data analysis is to get reliable conclusions from enormous amounts of data. The three major processes in qualitative analysis are data reduction. The process of choosing, encoding, and categorizing data is referred to as data reduction. In this study, data obtained by researchers was reduced, namely the sustainability reports of each provincial bank. The definition of materiality and its keywords are the outcome of data reduction, as are the identification of stakeholders, stages of stakeholder involvement, and Management's response to materiality concerns, as well as the primary material challenges of each provincial bank. The second phase is data presentation, which refers to how the data is displayed. Choosing quotations, matrices, graphs, or charts that demonstrate data trends can assist researchers (and, eventually, readers) in making sense of the data. The reduced data is presented graphically, making it easier for researchers to interpret the data. The graphic shows the extent to which keyword definitions are full, the number of stakeholders and their engagement, and the number of important concerns identified and documented from economic, social, and environmental perspectives. Researchers then used a bull's-eye approach to find the most relevant information, creating a set of keywords to define materiality, stakeholders, and key material issues. Lastly, based on trends in limited datasets, make inferences. Researchers will address study difficulties at this stage by investigating the relationship between data analysis outcomes and critical criteria (GRI Materiality Principles, GRI Stakeholder Integration and GRI G4 Materiality Assessment Phase). The researchers then made decisions based on the completeness of the keywords in the materiality definitions, the level of stakeholder input, and the main materiality problems identified in the Provincial Bank Sustainability Report.

## **RESULTS**

### **Definition of Materiality in Sustainability Report**

Virtually all provincial banks include a concept of materiality in their sustainability reports. There is one bank having at least two keywords among the definitions revealed by each bank in defining materiality, as described by 9 banks. One bank used the most keywords, precisely five keywords. Bank Jatim is the name of the bank. Nine banks define their materiality using nine terms. Issues; major; stakeholders; impact; relevant; priority; bank; and performance are some of the themes. Eight bank stakeholders were the most often utilized of the nine keywords. This is a GRI statement that reports must cover topics considered sufficiently important to present the social, environmental and economic impact of an organization or to inform the impact of stakeholder decisions. It explains how stakeholders are included in a sustainability report that adheres to the premises of the standard. These two factors are also used to prioritize big challenges.

### **Stakeholder Involvement in the Sustainability Report**

All banks report the role of stakeholders in determining each bank's materiality. Bank BJB is the bank that includes the most stakeholders in terms of frequency. In its sustainability report, Bank Nagari engages eight stakeholders. Shareholders, society and other groups, workers, regulators, consumers, work partners, and the media are all engaged. Then, in its sustainability report, Bank BJB included 11 stakeholders. Employees, suppliers, communities and non-governmental organizations, the media, employee cooperatives, government and OJK, consumers, shareholders, and independent assessors are among the stakeholders engaged. Additionally, Bank Aceh incorporates seven stakeholders: shareholders, customers, staff, regulators, business partners, the media, the community, and society. Customers, the government, work partners, the media, and the community are all stakeholders in Bank Sumut. Bank

Kalteng has seven stakeholders: shareholders, government/manufacturers, suppliers, workers, consumers, and the community. Bank Jatim has six stakeholders: investors, customers, staff, communities, regulators, and the media. Shareholders, regulators or financial sector authorities, customers, workers, partners/suppliers, mass media, society, and other groups are among the eight stakeholders involved in Bank Kalsel. Additionally, Bank Kalbar engages nine stakeholders: shareholders, regulators, workers, customers, business partners, other communities, mass media, and suppliers. And for Bank Sumsel Babel, there are six stakeholders to consider: shareholders, staff, customers, community, work partners, and the media. Bank Sumsel Babel has the most stakeholder involvement phases, with five, followed by the other banks, each with four. The nine banks under consideration are substantially including stakeholders in the priority setting process. Nonetheless, only Bank Nagari, Bank BJB, Bank Aceh, Bank Sumut, Bank Jatim, Bank Kalteng, Bank Kalsel, and Bank Kalbar completed the identification step. The Bank of Sumsel is thereafter solely responsible for the stage of structure construction, processing, review, and finalization.

### **Materiality Issues in the Sustainability Report**

Each provincial bank divides materiality concerns into three categories: social issues, economic issues, and environmental challenges. Bank Nagari was the provincial bank that discovered the most material concerns, with a total of 17 material issues. However, Bank Jatim detected the fewest substantial concerns, with a total of six complaints. The corporation puts priority restrictions on material concerns that are deemed the principal material factors when considering materiality. These restrictions are classified as "High", "Medium", and "Low". Companies utilize a materiality matrix or table to communicate their information. Bank Kalsel reported the most social concerns of the nine banks analyzed, with eight, while Bank Kalteng and Bank Jatim declared the fewest social difficulties, with three each. Bank Nagari, Bank Aceh, and Bank Sumut have the most economic concerns, with a total of five social issues, while Central Kalimantan banks have at least two social difficulties. Bank BJB has the most environmental concerns, with a total of five, followed by Bank Kalteng, which has one. Additionally, the bank has further difficulties at Bank BJB, which has two issues, and Central Kalimantan Bank, which has one issue.

## **DISCUSSION**

### **Definition of Materiality in Sustainability Report**

According to the survey results on the definition of materiality and materiality by issuers, almost all issuers define their materiality and materiality ratings. As a result, Landesbanken is keenly aware of what is important to companies and stakeholders and how important it is. One of the most important terms is stakeholder. The report shall cover topics deemed relevant enough to indicate the social, environmental and economic impact of the organization or to influence the decision-making of stakeholders. This is consistent with the GRI materiality principle. These two factors are also used to prioritize big issues. Based on all terms used by issuers, bank relevance encompasses economic, social, environmental and governance aspects, with medium to medium long-term potential for stakeholders and banks. It can be characterized as a priority issue with significant impact on the industry. Terminology result. It's a long term investment. Key issues can be found through stakeholder interviews or research/reports on human resources related to business operations (risk and control, oversight) and organizations (customers, communities, institutions). Companies that conduct materiality assessments according to the standards can form a Sustainability Committee. The concept also reflects the thinking of the banking industry, which seeks to maintain its legitimacy as an expression of the bank's stakeholder ties that need to be nurtured.

### **Stakeholder Involvement in the Sustainability Report**

All issuers identified stakeholders based on survey data and stakeholder responsibilities. As a consequence, we may conclude that all issuers are conscious of their stakeholders. This step is consistent with GRI's approach on stakeholder engagement, which highlights the need of issuers identifying their constituents. This makes stakeholder identification very useful in banking. Consumers are the most powerful stakeholders in the banking industry. As a consequence, stakeholder identification is quite strong at the provincial bank. Eight provincial banks identified these stakeholders. In addition, all issuers indicate that they are involved in determining the materiality of each issuer. According to GRI G4, stakeholders can be included in the materiality assessment through a process of identification, prioritization, verification, and review. Most provincial banks collaborate with interest groups under this model. However, there are still discrepancies in disclosure, with some agencies disclosing in full schema format and others in short sentences. It would be even better if this could be amended so that the sustainability report meets the GRI G4 requirements for stakeholder engagement, quality and disclosure. Disclosure of stakeholder engagement at regional banks is therefore appropriate, but could be improved to make materiality assessments more open and of high quality. As with East Java Bank, one of his stakeholders is a customer. Stakeholders, according to Bank Jatim, are companies or individuals affected by a company's actions, goods or services. On the other hand, their presence influences the ability of companies to successfully execute their strategies and achieve their goals. Stakeholder engagement is aligned with the company's commercial objectives, taking into account corporate social responsibility, environmental concerns, and prioritization of communication with various strategic partners. Bank Jatim meets the expectations of all stakeholders by using available resources in an appropriate and responsible manner that does not conflict with the provisions of applicable laws and regulations in the process of engaging relevant stakeholders includes the efforts of

### **Materiality Issues in the Sustainability Report**

All provincial banks have disclosed the primary and substantial problems observed. Most institutions have found seven or more serious material issues. Nonetheless, there are some significant gaps, particularly 17 issues. Although there is no set amount of severe material concerns that a bank must disclose, the issue identification process should be examined and improved. The disclosure of critical concerns is generally excellent at the provincial bank, but it may be enhanced so that the materiality evaluation is of higher quality. It is intended that all banks would utilize this matrix in future sustainability reports to make the identification process more open and on target. While assessing material topics, the materiality matrix and materiality table highlight material challenges at provincial banks and classify them into materiality levels, namely High, Medium, and Low, by providing two-dimensional data. Not all issuers report material problem identification using the GRI priority matrix, that is, identifying material issues using a subject priority matrix with two dimensions: effect on stakeholders (vertical) and economic materiality, environmental and social impact (horizontal). In future sustainability reports, all issuers will use the matrix to make the identification process more accessible and focused.

## **CONCLUSION**

Provincial banks must conduct materiality studies in order to identify issues or themes that have broad and substantial social, economic, and environmental ramifications for stakeholders. The goal of this study is to look at the interest rates of each province bank, which is represented by nine provincial banks. Provincial banks have appropriately balanced parameters for evaluating materiality. The Provincial Bank's function as a stakeholder is particularly concerned with stakeholder participation in the appraisal of interests, as well as stakeholder interests and benefits. By considering the organization's

economic, environmental, and social aspects, as well as the dimensions of effect on stakeholders, the provincial bank identified important high-level material difficulties. According to the conclusions of the provincial bank, the fit is decent, but there is still potential for development. The following study suggestions can be shared with other stakeholders by researchers. Bank issuers have a lot of potential and a solid knowledge of materiality analyses. Sadly, certain issuers continue to perform poorly in terms of materiality. Issuers that continue to make mistakes must learn from those who have made effective disclosures. Issuers with excellent disclosures are required to keep their ratings consistent and to enhance their quality. To ensure that materiality benefits the issuer and its stakeholders, all issuers must be able to undertake high-quality, transparent materiality analyses in compliance with the Standard's principles. Sustainability reports from highly compliant issuers may subsequently be used as one of the key sources of information for non-financial reporting decisions by investors and potential investors. Future researchers can look into other components of sustainability reports besides materiality or utilize non-GRI criteria.

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