The Role of Coercive Isomorphism in Improving Sustainability Performance

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Abstract. Sustainability performance has become an interesting issue in the business world. This can be seen from the current perspective of investors who not only look at profitability but are also oriented towards non-financial factors in the form of the company's long-term growth. Sustainability performance refers to an organization's total performance, which may include its policies, decisions, and actions that create social, environmental, and/or economic, including financial results. The entire *non-financial reporting* process may be directly and indirectly driven by the effects of institutional isomorphic mechanisms. Institutional isomorphism is related to actions resulting from external pressure. The sample of this study was all banks registered with the Financial Services Authority for the 2019-2022 accounting period. The results of this research show that coercive isomorphism has a positive effect on sustainability performance.

Keywords: Isomorphic, Sustainability Performance

1 Introduction

Sustainability performance has become an interesting issue in the business world. This can be seen from the current perspective of investors who not only look at profitability but are also oriented towards non-financial factors in the form of the company's long-term growth [1]. Sustainability performance is a framework for defining sustainability variables based on the triple bottom line model (profit, planet, people), which defines and applies measurement techniques, and reports the actual status of variables in public reports by a company [2].

Reporting on the company's sustainable performance encourages the company's financial performance to achieve profits and increase net asset value. The sustainability aspect is largely explained by the incorporation of non-financial aspects into business operations. The main orientation explained in the concept of sustainable corporate reporting is the existence of synergy between the company, stakeholders, social aspects, governance, and environmental aspects around the company because it is believed that the success of a company is largely associated with

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environmental conditional situations [3]. The benefit of implementing sustainability performance is that companies become more concerned about society and the environment by providing added value, increasing a positive image, reducing risks that have a detrimental impact on the company, and increasing the trust of shareholders and other stakeholders.

Sustainability performance refers to the total performance of an organization, which may include its policies, decisions, and actions that create social, environmental, and/or economic, including financial results [4]. The entire *non-financial reporting* process may be directly and indirectly driven by three institutional isomorphic mechanism effects.

Institutional isomorphism is related to actions resulting from external pressure. There are three possible typologies of institutional isomorphism, namely coercive/coercive (a typology that refers to formal and informal pressure by external parties on which an institution depends, where the institution is expected to have a culture to emphasize its function), mimetic/ mimetic (a typology that is the result of standards for responding to uncertainty, including environmental uncertainty), and normative/normative (typologies related to professionalization) [5].

The institutional Theory approach is used in this research because it is believed that companies are economic units that operate in a context formed by interactions between institutions that influence company behavior and stakeholder expectations [6]. Another theory used is *Stakeholder Theory* which says that a company is not an entity that only operates for its interests but must provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, society, and other parties), therefore the existence of a company is greatly influenced by the support provided by stakeholders to the company. The survival of the company depends on stakeholder support and this support must be sought so that the company's activities are to seek this support [6].

[7] also stated that every strategy or activity carried out by company management must pay attention to the welfare of stakeholders. [8] also conveyed the same thing, that considering the welfare of stakeholders during a crisis can speed up organizational recovery. Activities and disclosures regarding corporate social responsibility can be used as an intermediary for dialogue between the company's desires and the needs of interested parties. Relationships that run well will increase the company's reputation as a socially responsible company and ensure the company's sustainability.

Institutional isomorphism theory states that an organization will carry out a strategy that is similar to another organization when facing the same situations and conditions so that this theory can be used to reveal, investigate, and provide an understanding of the company's response to the changes and pressures faced by the company to exist. accepted corporate environment [9].

[4] stated that relevant institutional factors caused the voluntary guarantee *of sustainability reports* to be adopted. Apart from that, the *institutional isomorphism factor* can provide explanatory power in requests for guaranteed sustainability reports. However, according to [10], the isomorphism pattern has little influence on CSER practices in multinational subsidiaries. Seeing that the research results are still diverse makes this research necessary to carry out.

In Indonesia, the concept of corporate sustainability performance is still in the embryonic stage and awareness is still not high compared to other developing countries. The overall picture of sustainability performance in terms of disclosure patterns shows that the concept of sustainability performance in Indonesia is still far from being understood by stakeholders [11]. A similar thing was conveyed by [12], that in general Indonesia's sustainability disclosure is still low. Most companies report sustainability only for regulatory compliance.

Economic constraints play an important role in shaping Non-Financial Performance (NPF) measurement practices, so economic conditions are of concern to management to improve and measure financial performance, but management pays less attention to improving and measuring NFP [3]. Based on previous research [4] they did not pay attention to aspects of economic pressure during a crisis, so in this study the condition of economic pressure (impact of COVID-19) as one of the concerns in the research period setting.

The occurrence of the Covid-19 pandemic dealt a heavy blow to the company's financial condition. WHO declared that the COVID-19 pandemic occurred on March 9, 2020, which means that the Coronavirus has spread throughout the world. The Covid-19 pandemic is global in scale, so the impact caused is also massive. On the other hand, companies must be able to survive conditions that have never been imagined before. The World Trade Organization estimates global trade volumes to plunge from 12.9% to 31.9%, while the International Monetary Fund (IMF) states that the global economy shrank 3% in 2020 (www.cnbc.com).

2 Formulation of the Problem

The COVID-19 pandemic has raised awareness of the connection between people, the planet, and *profit*, especially about health, poverty, climate change, and the stability of the global financial system. The pandemic puts Social in ESG (*environmental*, *social*, and *governance*) into a focused perspective and provides reasons to reassess the environment.

Based on the problems above, the problem formulation in this research is whether coercive isomorphism has a positive effect on sustainability performance.

3 Research Purposes

This research aims to obtain empirical evidence regarding the influence of isomorphism on sustainability performance. The detailed research objective is to examine the effect of coercive isomorphism on sustainability performance.

4 Hypothesis Formulation

Isomorphism is a process of adaptation to organizational institutional practices [13]. Isomorphism has three stages, namely: coercive isomorphism, or the stage of an organization changing its institutional practices due to pressure from stakeholders (stakeholder theory); mimetic isomorphism, or the stage of imitating and improving institutional practices to build competitive advantages to gain legitimacy from society; and normative isomorphism or emerging pressure to adopt certain institutional practices such as providing social and environmental information through corporate reporting media [9].

Previous research related to isomorphism, namely the relationship between isomorphic elements and sustainability [14], isomorphism in terms of legal pressure on sustainability [15], isomorphism from specific countries and industries to sustainability [4]. Meanwhile, this research examines Coercive Isomorphism as a proxy for foreign ownership. Coercive isomorphism is a process in which an organization responds to a change that occurs in its environment which is a collection of other organizations that occur as a result of political policies in a jurisdiction, or related to legitimacy issues in society [9]. The hypothesis built in this research is:

Ha: Coercive isomorphism has a positive effect on sustainability performance

5 Research Methods

The population and sample for this research are all banks registered with the Financial Services Authority for the 2019-2022 accounting period. Sample using census method. The data needed in this research is the annual report and sustainability reporting.

The research variables used in this research are: Dependent variable Sustainability Performance consists of three elements, namely economic sustainability practices, environmental sustainability practices, and social sustainability practices. The independent variable is Isomorphic coercive. The control variable in this research is company size which is proxied by the natural logarithm of total assets.

Data analysis for sustainability performance variables using content analysis. Measuring sustainability performance variables use sustainability indicators from the GRI standard, if a banking company carries out sustainability performance activities contained in the item indicators it will be given a value of 1, but if not it will be rated 0. Meanwhile, measuring coercive isomorphic variables uses a ratio, namely the comparison between foreign ownership and total share.

The analysis technique uses descriptive analysis, classical assumption tests, and *Multiple Regression Analysis.* Hypothesis testing using the F test, t-test, and R^2 test.

The F test is used to test the feasibility of the regression model. The F test results in this research were obtained based on the following significance criteria:

- If the value is significant ≤ 0.05 then the regression equation model is declared feasible.

- If the significant value is > 0.05 then the regression equation model is declared unfeasible.

The t-test is used to test the acceptance of the hypothesis. The t-test results in this study were obtained based on the following significance criteria:

To test H1:

- H_0: $\beta_a \leq 0$: Corseive isomorphy does not have a positive effect on Sustainability Performance
- Ha: $\beta_a > 0$: Corseive isomorphism has a positive effect on Sustainability Performance

6 Results And Discussion

The results of the regression analysis can be seen in the following table:

Table 1. Results of The Regression Analysis

Model	Adjusted R Square	F test		t-test		
		F Value	Significance	Unstandardized Coefficients Beta	t value	Significance
1	0.021					
Regression		2.974	0.054			
Constant				0.211		
Coercive Isomorphism				0.022	2.150	0.033
Company Size				-0.003	-1.656	0.100
Dependent variable: Sustainability Performance						

Based on the table above, it is known that the significance value of the F value is 0.054. This shows that the regression model can be used to analyze the influence of cooperative isomorphism on sustainability performance. Based on the table above, it can also be proven by an alternative hypothesis that explains that coercive isomorphism has a positive effect on acceptable sustainability performance. This research proves that coercive isomorphism can improve sustainability performance, if coercive isomorphism increases it will improve sustainability performance so that it can make stakeholders have more trust in the company.

7 Conclusions

The conclusion that can be drawn from this research is that the role of coercive isomorphism as proxied by foreign ownership can improve sustainability performance. So if the company has more foreign ownership it will be able to create trust among stakeholders. The limitation of this research is that it does not test memetic and normative isomorphism, so future research is expected to add these variables.

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