



Law as a Catalyst for A Sustainable Society: Analyzing Indonesia's Mandatory Sustainability Reporting Framework in the Capital Market

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Abstract. This study provides a normative legal analysis of Indonesia's sustainability reporting framework, examining both the legal architecture and its practical implementation. This study employs a normative legal research method, using statutory and conceptual approaches. The statutory analysis scrutinizes the foundational OJK Regulation No. 51/POJK.03/2017 and Technical OJK Circular Letter No. 16/SEOJK.04/2021 to establish legal norms. This is supplemented by a substantive quality analysis of Sustainability Reports from 20 of Indonesia's largest public companies (2024 reports) to analyze the practical application of these norms. The findings confirm that Indonesia's legal framework creates a robust, multi-layered bridge between ethical principles and concrete disclosure obligations. However, an analysis of the reports indicates a significant gap between regulatory intent and corporate practice. While structural compliance is near-perfect, the analysis reveals wide variations in the depth, quality, and transparency of ESG disclosures, marked by qualitative narratives and cherry picking. In conclusion, although Indonesia's legal framework is conceptually sound, its real-world effectiveness varies. It has succeeded in changing formal behavior but not substantive mindset. The paper's significant contribution is its dual analysis, identifying this gap as a conflict between the law's Stakeholder Theory intent and the firms' Agency Theory response, highlighting implementation challenges and greenwashing risks in fostering an ethically grounded capital market.

Keywords: *Corporate Governance, ESG, Legal Framework, Mandatory Disclosure, Sustainability Report*

1 Introduction

The discourse on "business humanization" has emerged in response to the limitations of the homo economicus paradigm, which focuses narrowly on economic rationality and profit maximization [1]. This traditional model is considered to have failed to address the social and environmental externalities it produces. Consequently, there has been a shift towards a more person-centred corporate model that recognizes human dignity and a broader purpose (common good) beyond profitability [2]. This shift demands integrating insights from the humanities to shape ethically responsible business practices [3]. In the context of "Humanizing the Law," legal frameworks are no longer seen as rigid compliance tools. Instead, the law is positioned as an innovative instrument for instilling and enforcing ethical values, such as responsibility, transparency, and fairness, which are integrated into core business operations.

This movement finds its practical manifestation in the principles of environmental, social, and governance (ESG). It serves as a measurable framework for assessing and communicating a company's sustainability and ethical impact [4]. These aspects are no longer seen as secondary or philanthropic considerations but have become integral components of a company's long-term strategy, risk management, and value creation [5].

The capital market has emerged as a central arena where ethical demands meet financial reality. Investors, both institutional and retail, are increasingly integrating non-financial ESG data into their investment decision-making processes [6]. The logic behind this is financially fundamental: transparent, high-quality ESG disclosure is considered to reduce information asymmetry between managers and investors, which, in turn, can lower the company's cost of capital [7].

Empirical studies in various markets have shown that financial markets respond to sustainability information. Positive ESG performance correlates with higher company valuations, as investors are willing to pay a premium for companies deemed more sustainable [8]. ESG performance is also believed to enhance the vitality of the capital market by boosting stock liquidity. This is because investors view companies with high ESG transparency as having lower risk and more stable, long-term prospects [9].

Nonetheless, it is essential to maintain a critical perspective. There is justified scepticism about whether capital market mechanisms, which are essentially driven by profit maximization, can adequately address the climate crisis or drive substantive social justice issues. The narrative that "green finance" can "save the planet" risks oversimplifying complex structural problems. Without strict oversight, this can lead to greenwashing practices, where companies selectively report sustainability data to manage their public image without making fundamental operational changes [10].

This is where the law's central role as an instrument becomes clear. To move beyond voluntary claims and potential greenwashing, a legal framework requiring mandatory disclosure is essential. Regulation serves as a "bridge" between ethical aspirations (sustainability) and market practices (disclosure), compelling companies to provide standardized, verifiable, and comparable data. Legal interventions, as evidenced by China's new environmental protection laws, have been shown to drive ESG investment and corporate innovation [11].

Indonesia has taken proactive steps to respond to this global trend. The Financial Services Authority (OJK) has identified sustainable finance as one of the main pillars for developing the national financial services sector. Through the "Sustainable Finance Roadmap," Indonesia aims to align its financial industry with national sustainable development goals (SDGs) and climate commitments [12]. The form of this regulatory initiative is the OJK Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, listed companies, and Public Companies (hereinafter referred to as "POJK 51/2017"). This regulation marks a significant shift in the Indonesian capital market, transforming sustainability reporting from a voluntary practice to a legally mandated (mandatory) practice, which is being regulated in stages for entities in the financial sector, listed companies, and public companies [13].

Several studies in the Indonesian context have focused on the empirical impact of ESG implementation. These studies generally examine how the stock market reacts to ESG risks or how ESG disclosure affects a company's value on the Indonesia Stock Exchange [14],[15]. Similar research in neighbouring countries, such as Malaysia, has examined the quantitative relationship between ESG practices and corporate financial performance [16].

However, analyses focusing on the legal framework from a juridical-normative perspective are lacking. Many studies jump straight into empirical impact analysis without first dissecting an underlying legal architecture. There is a gap in understanding how the legal norms in POJK 51/2017 and its technical implementing provisions, such as the Circular Letter of the Financial Services Authority Number 16/SEOJK.04/2021 concerning the Form and Content of the Annual Report of Listed Companies or Public Companies (hereinafter referred to as "SE/OJK 16/2021"), are designed to translate the ethical principles of sustainability into concrete disclosure obligations. Furthermore, the gap between what is required by law (law in the books) and what companies report (law in action) has not been systematically explored. In other words, how effective is POJK 51/2017 in catalyzing true transparency, versus just being a compliance exercise?

Based on these gaps, this study seeks to answer the following two main questions. First, how does the Indonesian legal architecture, especially POJK 51/2017 and SEOJK 16/2021, build a normative bridge between the principles of sustainability ethics and specific disclosure obligations in the capital market? Second, how does the legal norm compare with the actual reporting practices of public companies in Indonesia, and what gap arises between regulatory intentions and corporate reality?

To answer these questions, this study is organized into several sections. The following section outlines the normative legal research methodology employed in this study. The third part maps the foundation of sustainable finance regulation in Indonesia, starting with an analysis of the capital market legal framework that grants authority to the Financial Services Authority (hereinafter referred to as "OJK"), followed by a review of the Sustainable Finance Roadmap, which serves as a policy blueprint. The fourth part analyses the legal architecture of the mandatory reporting framework in detail, dissecting the key obligations in POJK 51/2017 and its implementing regulations. The fifth section presents a practical analysis of published sustainability reports that identifies implementation patterns and gaps. The final section provides a synthesis and conclusion of the findings.

2 Methodology

This study uses the doctrinal legal research method, which is also known as normative legal research. The main focus of doctrinal research is the analysis of law as a coherent system of norms by analysing the rules, principles, and doctrines of law. This research is centred on the law in the books, which is the law as it is written and should be applied [17].

To answer the problem formulation, this study applies two main approaches that are prevalent in the doctrinal method. First, the Statutory Approach. This approach

was used to conduct a systematic analysis of the applicable legal norms. In this context, an in-depth examination of POJK 51/2017 and SEOJK 16/2017 was conducted. This analysis aims to dissect the legal architecture and identify explicit legal obligations (mandatory rules) and guiding principles set by regulators.

The second approach is conceptual. This approach complements normative analysis by utilizing legal and governance theories to interpret the purpose and function of regulations. The conceptual framework of this study is supported by two main theoretical pillars. The first pillar is Roscoe Pound's sociological legal theory of "Law as a Tool of Social Engineering" [18]. POJK 51/2017 is not analysed as a static rule but as a dynamic instrument consciously designed by the OJK to "engineer" the behaviour of capital market participants towards a new social goal, namely, a sustainable society.

The second pillar is corporate governance theory. This study positions POJK 51/2017 as a legal intervention that shifts the governance paradigm in Indonesia from the shareholder-centric Agency Theory to Stakeholder Theory [19]. These regulations legally force corporations to recognize and report their impact on broader stakeholders (social and environmental), no longer limited to the financial interests of shareholders [20].

Substantive quality analysis will be conducted to determine the gap between the law in the book and the law in practice through two levels: 1) structural compliance analysis, and substantive quality analysis.

The sample sustainability report is analysed based on its structural completeness to the 9 (nine) key components stipulated in SEOJK 16/2021;

At this level, an analysis of the content of the nine key components was carried out. The measuring tool is 8 (eight) guiding principles, which are also contained in SEOJK 16/2021 (for example, Principles of Informative Communication, Principles of Social and Environmental Risk Management). This analysis assesses whether the disclosure is substantive and transparent, or just a boilerplate (formality) that fails to meet the regulatory intent based on Stakeholder Theory [19].

The object of analysis in this study is the Sustainability Reports for the 2024 period of 20 listed companies with the largest market capitalization as of January 2025, the data of which are published by the Indonesia Stock Exchange (IDX). The 20 listed companies represent a dominant portion of the Indonesian capital market. As the companies with the largest resources, they are assumed to have the highest capacity to implement regulations fully. Therefore, the quality of their reporting can be used as the most valid benchmark to measure the peak effectiveness of the implementation of POJK 51/2017 in Indonesia.

Table 1. List of the companies represent a dominant portion of the Indonesian capital market.

Code	Listed Company	Code	Listed Company
BREN	PT Barito Renewables Energy Tbk.	ASII	Astra International Tbk
BBCA	Bank Central Asia Tbk.	BBNI	PT Bank Negara Indonesia (Persero) Tbk
BYAN	Bayan Resources Tbk	CUA N	PT Petrindo Jaya Kreasi Tbk
BBRI	PT Bank Rakyat Indonesia (Persero) Tbk	ICBP	Indofood CBP Sukses Makmur Tbk
TPIA	PT Chandra Asri Pacific Tbk	BRIS	PT Bank BRIsyariah Tbk
BMRI	Bank Mandiri (Persero) Tbk.	DNET	PT Indoritel Makmur Internasional Tbk.
AMMN	PT Amman Mineral Internasional Tbk.	AMR T	Sumber Alfaria Trijaya Tbk.
DSSA	Dian Swastatika Sentosa Tbk	DCII	DCI Indonesia Tbk
TLKM	Telkom Indonesia (Persero) Tbk.	SMM A	Sinarmas Multiartha Tbk
PANI	Pantai Indah Kapuk Dua Tbk	UNT R	United Tractors Tbk

3 Results

3.1 Foundations of Sustainable Finance Regulation in Indonesia

The sustainable finance agenda in Indonesia did not emerge in a vacuum. It is a policy innovation embedded in the legal framework of the capital market and is driven by a well-planned regulatory strategy. To understand the architecture of sustainability reporting obligations, it is essential to first map out the juridical and policy foundations on which they are based. This foundation consists of two main pillars: the OJK as the capital market regulator and the Sustainable Finance Roadmap as a policy blueprint.

The main legal basis for regulating the capital market in Indonesia is Law No. 8 of 1995 concerning Capital Markets (hereinafter referred to as the "Capital Market Law"). This law provides a legal framework for securities trading activities, public offerings, and the roles of supporting institutions. The Capital Market Law aims to ensure that capital market activities are conducted in an orderly, reasonable, and efficient manner and to protect the interests of investors and the general public [21].

The authority to regulate and supervise the financial services sector, including the capital market, is in the hands of the OJK. The OJK was established based on Law No. 21 of 2011 concerning the Financial Services Authority. With the establishment of the OJK, the function of regulating and supervising the capital market shifted from the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) to the OJK [22].

The OJK's authority is very broad, including the establishment of regulations, licensing, supervision, inspection, and investigation in all financial services sectors. In the context of the capital market, the OJK has the legislative authority to establish implementing regulations (such as OJK Regulations or POJK) to further elaborate on the provisions of the Capital Market Law. This authority is the legal basis for the OJK's intervention in regulation.

Conceptually, the OJK's authority to protect "the interests of investors and the general public" is a fundamental legal justification for the sustainable-finance agenda. From the perspective of legal theory as a tool of social engineering, the OJK does not only play the role of a passive supervisor. Instead, the OJK actively uses legal instruments (its regulatory authority) to "engineer" or direct the behavior of financial services industry players to align with broader development goals, in this case, sustainability. This intervention manifests the role of law as a catalyst for achieving planned social change.

3.2 OJK Roadmap for Sustainable Finance: From Policy to Norm

The OJK's intervention in sustainability issues is not an ad hoc policy but part of a structured long-term strategy. The OJK has initiated sustainable finance development in Indonesia since 2014. This strategic step was then formalized through the issuance of the "Sustainable Finance Roadmap Phase I" for the period 2015-2019.

After the Phase I evaluation, the OJK continues its commitment by launching the "Sustainable Finance Roadmap Phase II (2021-2025)". This policy document serves as a strategic guide for the OJK and related stakeholders to accelerate the implementation of sustainable finance. The vision of the Phase II Roadmap is "Realizing a sustainable, stable, and competitive financial services ecosystem to support inclusive and environmentally friendly national economic growth."

The Phase II Roadmap is designed to respond to urgent challenges, especially climate change risks, and to support the achievement of the Sustainable Development Goals (SDGs) and Indonesia's commitments to the Paris Agreement. This document sets out five interrelated strategic directions for developing a sustainable financial ecosystem in Indonesia.

As one of the main instruments for implementing the Roadmap, the OJK developed the "Taxonomy for Indonesia's Sustainable Finance" (TKBI), formerly known as the Indonesian Green Taxonomy. This taxonomy is a classification system that groups economic activities based on their impact on environmental sustainability goals. The main goal is to provide a uniform language for market participants in defining what is meant by "sustainable."

The TKBI uses a traffic light system-based approach to classify sectors and sub-sectors of the economy into three categories: Green (providing environmental protection or improvement), Yellow (transition to improvement), and Red (having a negative impact and/or not meeting standards). This taxonomy is a crucial technical tool for financial services institutions to channel financing to sustainable projects and for listed companies to report their performance in this regard. The Roadmap and Taxonomy collectively form a "policy" which is then translated into binding "legal norms" through the POJK 51/2017 stipulation.

3.3 Sustainability Reporting Architecture: Normative Analysis of POJK 51/2017

If the Roadmap is a strategic blueprint, POJK 51/2017 is the main legal instrument that transforms the policy into an enforceable juridical obligation. POJK 51/2017, together with its technical implementing regulation SEOJK 16/2021, establishes a legal architecture for mandatory sustainability reporting in Indonesia. A normative analysis of these two regulations dissects how the law that should be is formulated by the regulators.

The issuance of POJK 51/2017 is based on international commitments and domestic funding needs. The development of sustainable finance in Indonesia is inseparable from the government's dual commitment. First, a commitment to contribute to global climate change mitigation through the reduction of Greenhouse Gas (GHG) emissions, as stated in the Paris Agreement. Second, there is a commitment to achieve the 17 Sustainable Development Goals (SDGs) by 2030.

The fulfilment of these two commitments was identified as requiring large amounts of funding support, which cannot be fulfilled by the State Revenue and

Expenditure Budget (APBN) alone. Facing this funding gap, the OJK considers it important to proactively direct the Financial Services Sector (SJK) to contribute to sustainable development financing. POJK 51/2017, which is one of the milestones of the Sustainable Finance Roadmap Phase I (2015-2019), is the main juridical instrument to mobilize the role of the SJK.

POJK 51/2017 is the parent regulation that lays the basis for obligations. In addition to being driven by the policy reasons described above, the formal legal basis for its issuance is contained in the Considerations Section ("Considering"). This regulation explicitly states that it was issued to implement the provisions of the OJK Law and the Limited Liability Company Law (Law No. 40 of 2007, as amended by Law Number 6 of 2023) related to social and environmental responsibility.

Based on the analysis of the key articles in POJK 51/2017, several normative pillars have been identified as follows:

Institutionalization of the Concept of Sustainability: Article 2 legally defines "Sustainable Finance." Sustainable Finance is defined as "the comprehensive support of the financial services sector for sustainable growth resulting from alignment between economic, social, and environmental interests." This definition effectively adopts Stakeholder Theory and the Triple Bottom Line (Profit, People, Planet) principle into Indonesia's positive law, shifting the focus of regulation from just the interests of shareholders.

Obligations: Article 6 requires financial services institutions, listed companies, and public companies to "apply the principles of Sustainable Finance. These principles include responsible investment, sustainable business strategies, social and environmental risk management, governance, and more.

Mandatory Disclosure Obligation: Article 10, paragraph (1) is the core of this regulation, which states that listed and public companies are "obliged to prepare a Sustainability Report." This report can be presented as an integral part of the Annual Report or as a separate report.

Implementation Timeline: Article 11 regulates the staggered implementation of reporting obligations, starting with certain LJKs in 2019 and then applicable to certain listed and public companies starting January 1, 2020, with the deadline for submitting the first report in 2021.

Obligations of Publication and Transparency: To ensure public accountability, Article 13 requires that the Sustainability Report be published on the company's official website.

Enforcement (Sanctions): Article 16 provides a "grip" on this regulation to ensure compliance. This article confirms that violations of reporting obligations (Article 10) and publication (Article 13) will be subject to administrative sanctions. The sanction, as stipulated in Article 17, may be in the form of (a) a written warning, (b) fines, (c) restrictions on business activities, (d) freezing of business activities, or (e) postponement or cancellation of registration. The existence of this sanction confirms the mandatory nature of this regulation, which is no longer voluntary.

3.4 Analysis of SEOJK No. 16/SEOJK.04/2021 as a Technical Norm of Disclosure

If POJK 51/2017 is the parent norm that answers the "why" and "what" in general, SEOJK 16/2021 is the technical norm that answers the "how." SEOJK 16/2021 was issued as a guideline for the technical implementation of POJK 51/2017. The norm architecture in SEOJK 16/2021 is the basis for the substantive quality analysis methodology used in this study. SEOJK 16/2021 establishes two different levels of norms:

Nine Key Components (Structural Compliance). Part II.B of SEOJK 16/2021 stipulates that the Sustainability Report "contains" at least 9 (nine) key components. This is a law on the books that is structurally required for listed companies to meet. The nine contents are as follows:

- Explanation of sustainability strategies:
- Overview of sustainability aspects (including economic, social, and environmental aspects)
- Brief profile of the listed or public company
- Explanation of the Board of Directors (including a statement of commitment)
- Sustainability governance (structures and procedures)
- Sustainability performance (explanation of quantitative and qualitative performance indicators)
- Written verification from an independent party (if applicable)
- Feedback sheet (if applicable)
- The listed or public company's response to the previous year's report feedback (if applicable).

The presence of these nine points is a formal compliance checklist.

Eight Guiding Principles (Substantive Quality). SEOJK 16/201 does not stop at formal compliance. Section II.A states that "To produce an effective implementation of Sustainable Finance," listed companies are "encouraged" to use 8 (eight) principles as a guide. These eight principles are substantive quality standards used in this study to assess the depth and transparency of the reports:

- Principles of Responsible Investment
- Principles of Sustainable Business Strategy and Practices
- Principles of Social and Environmental Risk Management
- Principles of Governance
- Informative Communication Principles
- Inclusive Principles;
- The principle of prioritizing leading sector development;
- Principles of Coordination and Collaboration.

Thus, this legal architecture creates two levels of expectations. Although listed companies can be structurally "compliant" by fulfilling 9 (nine) key components, they can fail to meet the "intention" of the regulations if the eight guiding principles are ignored. For example, a report may include a "Sustainability

Performance" section. Still, if it is only a qualitative narrative or cherry-picks positive data, it fails to meet the "Principles of Informative Communication." This gap between structural compliance will be the focus of the analysis in the next section.

3.5 The Implementation Gap: Regulation Versus Reality

Analysis of the implementation of POJK 51/2017 and SEOJK 16/2021 among the 20 largest listed companies by market capitalization in Indonesia reveals a complex picture. On the one hand, there is a high level of formal compliance with reporting obligations. On the other hand, substantive quality analysis reveals a significant gap between regulatory intent and the reality of corporate practices.

The first finding of this study is universal compliance with publication obligations. All 20 companies in the research sample have complied with Article 13 of POJK 51/2017, which requires the Sustainability Report to be published on the company's official website.

This study also confirms that listed companies take advantage of the flexibility afforded by the formats permitted by regulations. In accordance with Article 10, paragraph (2) POJK 51/2017, reports can be presented as separate or integrated parts in the Annual Report. Most listed companies, especially from the banking sector, such as BBKA (PT Bank Central Asia Tbk, 2024), BMRI (PT Bank Mandiri (Persero) Tbk, 2024), BBRI (PT Bank Rakyat Indonesia Persero Tbk, 2024), BBNI (PT Bank Negara Indonesia (Persero) Tbk, 2024), and BRIS (PT Bank BRI Syariah Tbk, 2024), choose to publish sustainability reports as comprehensive standalone reports, as does ICBP (PT Indofood CBP Sukses Makmur Tbk, 2024) [23],[24],[25],[26],[27],[28]. Other listed companies, such as DSSA (PT Dian Swastatika Sentosa Tbk, 2024), DNET (PT Indoritel Makmur Internasional Tbk, 2024), SMMA (PT Sinarmas Multiartha Tbk, 2024), DCII (PT DCI Indonesia Tbk, 2024), and AMRT (PT Sumber Alfaria Trijaya Tbk, 2024) present it as an integrated part of their annual reports [29],[30],[31],[32].

3.6 Structural Compliance Analysis

Structural compliance is measured based on 9 (nine) key components stipulated in Part II.B SEOJK 16/2021. At this level, the research findings indicate high compliance but also early indications of a "minimalist fulfilment" approach.

In the 6 (six) main non-conditional content (Items a-f), such as 'Explanation of the Board of Directors', 'Sustainability Governance', and 'Sustainability Performance', all 20 listed companies have complied structurally. Each report has listed these sections. These findings indicate that the administrative sanctions regulated in Articles 16 and 17 of POJK 51/2017 have been effective in encouraging procedural compliance.

However, significant variations are to be found in the 3 (three) conditional contents "if applicable", namely Items g, h, and I, as follows:

Item (h) 'Feedback Sheet': This is the point that is most adhered to. The majority of listed companies include a feedback sheet, often in the form of a form, email address, or QR code. This suggests that these points are treated as an easy-to-follow compliance checklist.

Item (g) 'Written Verification from an Independent Party': This is a clear quality differentiator. Best-practice listed companies, such as BBKA, BMRI, ASII, UNTR, and ICBP, include an Independent Assurance Statement (usually with "limited assurance"). However, most other listed companies do not include this verification, which while legally valid (due to the "if applicable" clause), it substantively undermines the credibility of the data presented.

Item (i) 'Listed Company's Response to Feedback': This is the point that is most rarely observed. Only a handful of listed companies (such as BBKA and ASII) explicitly have sections summarizing the previous year's feedback and company responses.

This compliance pattern provides a crucial starting point. Listed companies which fully comply with formal non-conditional components (a-f) and easy conditional components (h), but tend to avoid conditional components that demand substantive accountability (g and i).

3.7 Variations: Quality, Depth, and Transparency

The real implementation gap lies in the quality of the report's content. Using the 8 (eight) guiding principles in SEOJK 16/2021 (specifically the 'Principles of Informative Communication' and 'Principles of Risk Management') as the lens of analysis, this study identifies three main areas of gap that are exacerbated by the findings on conditional points (g) and (i).

First, the gap between narrative-qualitative disclosure versus quantitative-data. The 'Principles of Informative Communication' demand relevant and adequate data. Experienced listed companies such as BBKA, BMRI, ASII, UNTR) have presented quantitative, historical, and target-based performance data among others reduction in GHG emissions in tons of CO₂e, LTIFR, reclamation ratio). In contrast, some other listed companies such as PANI, DNET, DCII tend to present performance narratively, focusing on CSR programs without measurable impact data. This credibility gap is exacerbated by the fact (findings of point g) that many reports are not independently verified, so the reliability of the quantitative data presented is questionable.

Second, the gap between integrated versus siloed approaches in 'Sustainability Governance'. The 'Principles of Governance' and the 'Principles of Risk Management' demand the integration of ESG into the company's core strategy and risk management. Reports from major banking listed companies (BMRI, BBRI, BBNI) have described the integration of ESG risks into their Enterprise-Wide Risk Management (ERM) Frameworks. In contrast, immature reports such as CUAN,

DCII) treat ESG governance as a separate (siloed) function—closer to a CSR or corporate communications function rather than an integral part of risk management—thereby failing to meet the intent of Principles 3 and 4 of SEOJK 16/2021.

Third, the gap between balanced transparency versus cherry-picking. The 'Principles of Informative Communication' demand balanced disclosure, covering both positive and negative performance. The analysis shows a strong tendency to cherry-pick. Reports from the extractive (BYAN, AMMN, CUAN) (PT Amman Mineral Internasional Tbk, 2024; PT Bayan Resources Tbk, 2024; PT Petrindo Jaya Kreasi Tbk, 2024) and manufacturing (TPIA, DSSA) (PT Chandra Asri Pacific Tbk, 2024; PT Dian Swastatika Sentosa Tbk, 2024) sectors highlight CSR and reclamation programs, but lack of proportional transparency on sensitive data such as the pace of new land clearing or in-depth analysis of failure to achieve targets [34],[35],[36],[37][29].

This failure of two-way transparency is confirmed by the findings in Point (i). With the majority of listed companies failing to report "Responses to the Previous Year's Feedback", this proves that sustainability reports for them still function as a one-way communication tool (public relations) and not as a mechanism for two-way accountability dialogue with stakeholders.

3.8 Critical Analysis: Theoretical Conflicts and the Failures of Social Engineering

The above findings, high formal compliance but low substantive quality, reflect a fundamental theoretical conflict between regulatory intent and the reality of corporate behaviour.

POJK 51/2017 is conceptually based on Stakeholder Theory. As analysed in the previous sub-section, these regulations legally force corporations to recognize and be accountable to a broad spectrum of stakeholders, beyond shareholders namely society and the environment. This regulation aims to "humanize" the capital market by requiring genuine ethical transparency.

However, the research findings show that corporate responses are still largely firmly embedded in the framework of Agency Theory. From the perspective of Agency Theory, managers (agents) will make non-financial disclosures only to the extent they are believed to maximize value for shareholders (principals). In this context, cherry-picking practices, narrative-qualitative reporting, and reluctance to pay 'Independent Verification' fees (Point g) are entirely rational responses if companies view Sustainability Reports not as an ethical accountability tool (Stakeholder Theory demands), but rather as a compliance cost and reputation management tool to "signal" (signalling) to investors.

This implementation gap (law in the books vs law in practice) can be read as a conflict between legal intentions grounded in Stakeholder Theory and market implementation grounded in Agency Theory. The company has "hijacked"

instruments designed for stakeholder accountability and used them to manage shareholder perceptions.

This brings us to an analysis using Roscoe Pound's Law as a Tool of Social Engineering. OJK, as a "social engineer", has used legal instruments (POJK 51/2017) to "engineer" the behaviour of listed companies to move towards the goal of a sustainable society. According to this theory, engineering has only partially succeeded.

Success (Formal Level): The law (particularly the threat of Article 17 sanctions) has succeeded in forcing behaviour change at the formal or procedural level. This is evidenced by 100% compliance with the non-conditional components (Items a-f).

Failure (Substantive Level): The law has not succeeded in "engineering" the substance or mindset of the corporation. Companies respond to this legal compulsion with so-called "instrumental compliance": complying with the "letters" of the law (9-point structure) to avoid sanctions, but not internalizing its "spirit" (8 guiding principles).

Comorbidities also exacerbate this implementation gap. First, the maturity factor: many listed companies are still transitioning from the CSR (philanthropy) paradigm to ESG (integrated risk). Second, the cost-benefit factor. The collection of verified quantitative data (Point g) incurs significant costs that are not considered commensurate with the benefits. Third, and most crucially, the focus of supervision. Regulatory supervision (OJK/IDX) has proven to be very effective in enforcing formal compliance (timely report collection). Still, it is not yet sharp enough to monitor the substantive quality of reports.

It is this combination of formal compliance imposed by sanctions and weak substantive oversight that creates ideal conditions for greenwashing. In this context, greenwashing is defined as the practice in which companies selectively report sustainability data to manage public image and claim 'greenness' without being backed by real and substantive operational changes [10]. The boilerplate and cherry-picking reporting practices found in this study are essentially manifestations of greenwashing, in which legal instruments designed for stakeholder accountability (Stakeholder Theory) are hijacked for public relations purposes to manage market perception (Agency Theory).

4 Conclusion

This study analyses the legal architecture and practical implementation of the mandatory sustainability reporting framework in Indonesia, as regulated by POJK 51/2017 and SEOJK 16/2021. This study seeks to answer two questions: (1) How is the normative architecture (law in books) of the regulation designed?; and (2) What is the gap between the legal norm and the actual reporting practices (law in practice) by listed companies in the Indonesian capital market?

Answering the first question, Indonesia's sustainability reporting legal architecture has proven to be conceptually strong and layered. The core norm (POJK 51/2017) expressly transforms reporting from voluntary to mandatory by imposing administrative sanctions (Article 17). This is a clear manifestation of legal theory as a tool of social engineering. This architecture is enhanced by technical norms (SEOJK 16/2021) that uniquely establish two levels of standards: 9 (nine) key components for structural compliance (including 3 conditional "if applicable" contents), and 8 (eight) guiding principles (such as 'Principles of Informative Communication') for substantive quality.

Answering the second question, the study's findings confirm a key thesis: while regulation has been formally successful, its substantive effectiveness still varies. Analysis of the 20 largest market capitalization listed companies shows near-perfect structural compliance with non-conditional components (Items a-f). However, substantive quality analysis revealed significant implementation gaps. This gap manifests itself in three main forms: (1) the dominance of narrative-qualitative disclosure over quantitative data; (2) siloed and unintegrated ESG governance into core risk management; and (3) systematic cherry-picking practices .

Findings on conditional content confirm this low substantive quality: the majority of listed companies avoid the expensive 'Independent Verification' (Point g), and ignore the 'Response to Feedback' (Point i) which demands bidirectional accountability.

A significant contribution of this study is the use of dual analysis (normative-practical) to identify that this gap is not a mere technical failure, but a fundamental theoretical conflict. OJK regulations are designed with the intention of Stakeholder Theory (demanding ethical accountability). However, corporate responses (reporting practices) show that listed companies are still operating predominantly under the logic of Agency Theory (viewing reports as a reputation management tool). As a result, legal instruments designed for accountability are hijacked for reputation management, creating a significant risk of greenwashing.

This finding has implications for OJK policy. Regulators need to evolve from simply overseeing formal compliance (report completeness) to substantive oversight (report content quality). The OJK should consider enforcing sanctions not only for "failure to report", but also for "uninformative reporting" that effectively violates the 'Informative Communication Principles' of SEOJK 16. Encouraging (or even mandating) 'Independent Verification' (Point g) could be the next policy step to improve data credibility and close the greenwashing loophole.

This research has limitations. Focusing on the 20 largest listed companies may not reflect the realities of medium- and small-listed companies. In addition, the analysis is based solely on public documents without in-depth interviews. The next research can be directed to analyse the cost-benefit effectiveness of implementing POJK 51/2017 for listed companies, or to conduct qualitative studies to understand the company's internal decision-making process in compiling sustainability reports.

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