Mapping readiness for early IFRS S1 and S2 adoption among Indonesia's carbon-intensive firms

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ABSTRACT

The strengthening of sustainability and climate-related disclosures has become a global priority following the issuance of IFRS Sustainability Disclosure Standards S1 and S2. However, firms in developing countries continue to face challenges in aligning existing reporting practices with these emerging standards. This study assesses the readiness of carbon-intensive firms in Indonesia for the early adoption of IFRS S1 and S2 through a diagnostic analysis of sustainability disclosures. Using a qualitative content analysis approach, 89 annual and sustainability reports from the energy, chemicals, and construction materials sectors were evaluated based on 29 disclosure indicators across four pillars: governance, strategy, risk management, and metrics and targets. The findings indicate that overall readiness remains low, with relatively higher alignment observed in governance and strategy disclosures, while substantial gaps persist in risk management and, most notably, in metrics and targets. Climate-related quantitative disclosures, particularly those related to emissions measurement, financial impact assessment, and links to accounting assumptions, remain underdeveloped. These results highlight organizational and technical constraints that may hinder effective IFRS S1 and S2 implementation and underscore the need for regulatory guidance and capacity-building initiatives to support IFRS-aligned sustainability reporting in emerging economies.

Keywords: *IFRS S1, IFRS S2, Climate-related disclosures, Carbon-intensive industries, Readiness assessment*

Introduction

The publication of IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information*) and IFRS S2 (*Climate-related Disclosures*) by the International Sustainability Standards Board (ISSB) represents a pivotal shift toward global comparability and decision-usefulness in sustainability reporting (Pratama et al., 2024). Designed to meet investor demand for consistent, financially material information, these standards mandate detailed disclosures across four core pillars: Governance, Strategy, Risk Management, and Metrics & Targets. For carbon-intensive industries—which face acute transition risks, regulatory pressures, and capital market scrutiny in the shift toward a low-carbon economy (Åhman et al., 2017)—adopting IFRS S1 and S2 represents not merely a reporting obligation but a strategic imperative.

However, readiness to implement these standards varies substantially, particularly in emerging economies where institutional frameworks and corporate capabilities are still developing (Weaver & Woods, 2015; Sharma et al., 2017). In Indonesia, firms must

navigate a complex reporting landscape characterized by the coexistence of global standards, national regulations, and emerging ISSB requirements (Setiawan et al., 2025). This institutional complexity is compounded by persistent organizational constraints: limited data infrastructure, scarcity of technical expertise, and fragmented internal governance (Bouguerra et al., 2022; Benhayoun et al., 2025). While prior studies have documented general ESG adoption trends and broad readiness perceptions, a critical gap remains in empirically diagnosing how prepared carbon-intensive firms are to meet the specific disclosure requirements of IFRS S1 and S2, particularly at the level of individual disclosure pillars.

Recent research in the Indonesian context has highlighted sectoral variations in ESG maturity and identified regulatory barriers (Setiawan et al., 2025). However, no study has systematically examined readiness by deconstructing it according to the four IFRS pillars to reveal potential asymmetries between qualitative disclosure capabilities (in Governance and Strategy) and quantitative ones (in Metrics & Targets and Risk Management). This analytical gap is significant because it may reflect a decoupling between normative adoption signals and substantive implementation capacity a phenomenon that could undermine the reliability and comparability of climate-related financial disclosures (Jroundi, 2025; Benhayoun et al., 2025).

To address this gap, this study conducts a diagnostic assessment of early readiness for IFRS S1 and S2 adoption among carbon-intensive firms in Indonesia, focusing specifically on the pillar level. It seeks to answer: *To what extent do Indonesian carbon-intensive firms demonstrate readiness across the four IFRS disclosure pillars, and where are the most significant asymmetries between qualitative narrative readiness and quantitative technical readiness?* Using a qualitative content analysis informed by theory, the study moves beyond aggregate readiness scores to identify and explain structural disparities in preparedness across different disclosure dimensions.

This study offers three primary contributions. First, it provides a granular, pillar-level assessment of IFRS S1/S2 readiness in Indonesia's carbon-intensive sectors, systematically documenting the stark divergence between narrative and quantitative disclosure capabilities. Second, it integrates institutional theory and the resource-based view into a coherent analytical framework, offering a theoretically grounded explanation for observed asymmetries. Third, it delivers targeted, actionable insights for Indonesian regulators and firms, pinpointing where immediate intervention such as technical guidance on emissions measurement and risk integration protocols is most critical to enable substantive, IFRS-aligned sustainability reporting.

Theoretical Framework

This study is theoretically anchored in institutional theory and the resource-based view (RBV), which together provide a robust analytical lens for examining the observed asymmetries in readiness for IFRS S1 and S2 adoption among Indonesia's carbon-intensive firms. Rather than testing causal hypotheses, this framework offers a diagnostic

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perspective for interpreting how firms navigate emerging sustainability reporting requirements amidst institutional pressures and internal constraints (Benhayoun et al., 2025; Setiawan et al., 2025).

Institutional Theory: Pressures for Legitimacy and Symbolic Conformity

Institutional theory posits that organizations adopt structures and practices not only for technical efficiency but also to gain legitimacy and conform to external expectations (DiMaggio & Powell, 1983; Scott, 2014). In the context of sustainability reporting, firms face multiple institutional pressures: coercive (from regulators and stock exchanges), normative (from professional bodies and standards), and mimetic (from industry peers). These pressures create strong incentives for firms to signal alignment with emerging global standards like IFRS S1 and S2.

However, during early adoption phases when enforcement mechanisms are still evolving, firms may engage in symbolic or decoupled responses (Meyer & Rowan, 1977). This involves adopting visible, legitimacy-enhancing practices without necessarily integrating them into core operations. Applied to disclosure readiness, institutional theory helps explain why firms might demonstrate higher preparedness in narrative and governance-oriented disclosures—areas that require fewer technical resources but offer greater legitimacy benefits. These "softer" disclosures allow firms to signal conformity while maintaining operational flexibility, potentially creating a decoupling between normative adoption signals and substantive implementation capacity.

Resource-Based View: Internal Capabilities as Enablers and Constraints

Complementing the institutional perspective, the resource-based view emphasizes that a firm's ability to implement new practices depends on its unique bundle of tangible and intangible resources (Barney, 1991). For IFRS S1 and S2 adoption, critical resources include technical expertise (in climate accounting and data measurement), data infrastructure, financial resources for implementation, and organizational routines that integrate sustainability into financial reporting.

From an RBV perspective, quantitative, performance-based disclosures—particularly in metrics and targets, and to some extent in risk management—require significantly more sophisticated internal capabilities than narrative disclosures. These include reliable emissions tracking systems, scenario analysis capabilities, financial impact assessment methodologies, and cross-functional coordination between sustainability, finance, and risk management teams. Firms lacking these resources face capability gaps that constrain their ability to provide technically demanding disclosures, even when facing strong external pressures for compliance.

Synthesizing the Perspectives: An Integrated Framework for Asymmetrical Readiness

The integration of institutional theory and RBV provides a powerful explanatory framework for the asymmetric readiness patterns observed in this study. Institutional pressures create a "push" toward disclosure adoption, particularly in areas that enhance legitimacy with minimal technical investment. Meanwhile, internal resources and capabilities determine the "capacity" for substantive implementation, especially in technically complex disclosure areas. This dynamic helps explain the observed asymmetries across the four IFRS disclosure pillars: firms may respond to institutional pressures by prioritizing disclosures in Governance and Strategy pillars that offer legitimacy benefits with lower technical demands, while deferring minimal disclosure in Metrics/Targets and Risk Management pillars requiring substantial resources. This theoretical synthesis explains why many firms in Indonesia's carbon-intensive sectors exhibit relatively higher readiness in governance and strategy disclosures (responding to institutional pressures with symbolic conformity) while showing significantly lower readiness in metrics/targets and risk management (constrained by limited technical capabilities and data infrastructure). The framework also helps account for variations among firms: those with stronger internal resources may achieve more balanced readiness across pillars, while resource-constrained firms may rely more heavily on symbolic responses.

This study employs these theoretical perspectives as analytical lenses rather than as bases for hypothesis testing. The framework supports a diagnostic interpretation of disclosure patterns, helping to distinguish between symbolic adoption (driven primarily by legitimacy concerns) and substantive readiness (underpinned by organizational capabilities). This distinction is crucial for understanding the early-stage dynamics of IFRS S1 and S2 implementation in emerging economies like Indonesia, where institutional pressures for sustainability reporting are growing but organizational capacities remain uneven, further complicated by the coexistence of multiple reporting frameworks (GRI, POJK, PSAK) and varying levels of ESG maturity across sectors. By examining how institutional pressures and resource constraints interact to produce specific disclosure outcomes, this theoretical approach moves beyond mere compliance checking to offer insights into the underlying drivers of disclosure behavior. This positioning is consistent with the exploratory, diagnostic nature of the study and provides a coherent basis for interpreting the findings in the context of Indonesia's evolving sustainability reporting landscape.

Research Methods

Research Design and Approach

This study adopts a descriptive qualitative research design, employing content analysis informed by theory to assess the readiness of carbon-intensive firms in Indonesia

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for early adoption of IFRS S1 and S2. The methodological positioning is diagnostic and exploratory rather than evaluative or compliance-based. The objective is not to determine formal compliance with IFRS requirements but to identify relative patterns of disclosure readiness and structural asymmetries across disclosure pillars during this early stage of institutionalization. This positioning reflects the evolving nature of IFRS sustainability reporting, where disclosure practices remain heterogeneous and organizational capabilities are still developing. Accordingly, the analysis emphasizes interpretive clarity and pattern recognition over definitive measurement or normative judgment.

Sample and Data Sources

The sample comprises 89 publicly listed firms operating in carbon-intensive sectors, namely energy, chemicals, and construction materials. These sectors are internationally recognized as having heightened exposure to climate-related transition and physical risks due to their energy intensive operations and substantial greenhouse gas emissions. The analysis is based on Annual Reports and Sustainability Reports for the 2024 reporting year, representing the most recent disclosures available following the issuance of IFRS S1 and S2 by the International Sustainability Standards Board. These documents provide a relevant basis for examining firms' initial disclosure responses in an early adoption context.

Development of the Disclosure Instrument

The disclosure assessment instrument was developed based on the reporting requirements of IFRS S1 and IFRS S2, operationalized through a checklist of 29 disclosure indicators. The indicators were adapted from the framework proposed by Nurrizkiana et al. (2025), which has been applied in prior studies assessing readiness for IFRS sustainability reporting.
The indicators are grouped into four core pillars consistent with the ISSB structure:
  (1) Governance (9 indicators),
  (2) Strategy (12 indicators),
  (3) Risk Management (3 indicators), and
  (4) Metrics and Targets (5 indicators).
This structure ensures conceptual alignment between the assessment instrument and the underlying logic of IFRS S1 and S2, thereby enhancing the content validity of the analysis.

Content Analysis Procedure

The content analysis was conducted through a systematic, theory-informed coding process. All reports were independently reviewed by two researchers with academic backgrounds in accounting and sustainability reporting, using identical coding guidelines

derived directly from IFRS S1 and S2 disclosure requirements. To ensure coding reliability, we implemented a two-stage procedure. First, each disclosure item was independently coded by both researchers. Inter-coder agreement was calculated using Cohen's Kappa coefficient. The resulting Kappa value was 0.79, indicating substantial agreement, approaching an almost perfect level based on Landis and Koch's (1977) benchmark. Second, any remaining discrepancies were discussed and resolved through consensus-based deliberation. This approach balances quantitative reliability assessment with qualitative consensus-building, which is appropriate for exploratory research requiring nuanced interpretation of narrative disclosures. Each disclosure indicator was assessed using a three-point ordinal scale:

(1) 2 = explicit and detailed disclosure aligned with IFRS S1 or S2 requirements
(2) 1 = partial or general disclosure
(3) 0 = no relevant disclosure identified

Although numerical scores are used to summarize disclosure patterns, the analysis remains qualitative in nature. The scores function as an analytical aid to structure narrative interpretation rather than as a statistical measurement or performance evaluation tool.

Based on the number of fully disclosed indicators (score = 2), firms were classified into three readiness categories:

(1) High readiness: more than 21 indicators
(2) Moderate readiness: 11–20 indicators
(3) Low readiness: 10 or fewer indicators

These thresholds were established based on the distribution of scores in our sample and aligned with the heuristic classification approach used in the foundational study by Nurrizkiana et al. (2025), which served as our primary methodological reference.

To test the robustness of this classification, we conducted a sensitivity analysis using two alternative threshold sets: (1) stricter thresholds (23/13/8) and (2) more lenient thresholds (19/14/9). The results, presented in Table 1 below, confirm the robustness of our primary finding: across all three threshold scenarios, the majority of firms consistently remained in the low-readiness category (ranging from 56% to 71%). While the distribution of firms across the high and moderate categories varied with different cutoffs, the predominance of low readiness was unwavering. This consistency confirms that our main conclusion is not an artifact of arbitrary threshold selection.

Table 1.
Results of Sensitivity Analysis with Alternative Classification Thresholds

Readiness Category	Primary Treshold (21/11/10)	Alternatif 1 (23/13/8)	Alternative 2 (19/14/9)
High	13 firms (15%)	3 firms (3%)	17 firms (19%)
Moderate	26 firms (29%)	26 firms (29%)	9 firms (10%)
Low	50 firms (56%)	60 firms (67%)	63 firms (71%)
Total	89 firms (100%)	89 firms (100%)	89 firms (100%)

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Accordingly, the classification captures relative patterns of readiness rather than absolute conformity with IFRS S1 and S2 requirements.

Methodological Positioning and Limitations

Consistent with its diagnostic orientation, this study does not aim to test hypotheses or establish causal relationships. While this approach limits statistical generalizability, it provides a robust foundation for identifying systematic disclosure patterns and capability constraints during early-stage IFRS sustainability reporting adoption. Future research may apply longitudinal designs, explanatory methods, or different weighting schemes to further examine the determinants and evolution of readiness classifications.

Results And Discussion

Results

Based on the content analysis of sustainability and annual reports from 89 carbon-intensive firms, the level of readiness for the early adoption of IFRS Sustainability Disclosure Standards S1 and S2 varies substantially across firms. Of the total sample, 13 firms (15%) are classified as having high readiness, 26 firms (29%) exhibit moderate readiness, and 50 firms (56%) fall into the low readiness category. This distribution indicates that the majority of firms remain at a low level of readiness, suggesting that early adoption of IFRS S1 and S2 is still limited among carbon-intensive firms in Indonesia. Only a relatively small proportion of firms demonstrate moderate to high alignment with the disclosure requirements, highlighting substantial gaps in organizational preparedness at this early stage of implementation.

An aggregate analysis of disclosure completeness across the four IFRS-aligned pillars further illustrates uneven readiness patterns. Among the pillars, strategy-related disclosures exhibit the highest level of readiness, with an average fulfillment rate of 45%, indicating that firms are relatively more inclined to provide narrative explanations regarding climate-related risks and opportunities. Governance disclosures follow with an average readiness level of 35%, reflecting the presence of formal oversight structures and assigned responsibilities for sustainability-related issues. However, despite this relatively higher score, governance disclosures often remain procedural in nature, with limited evidence of integration into financial oversight and strategic accountability.

In contrast, risk management disclosures demonstrate a substantially lower readiness level of 21%, suggesting limited incorporation of climate-related risks into enterprise risk management processes. Most disclosures remain generic and lack explicit linkage to financial risk assessment or mitigation strategies. The lowest readiness is observed in the metrics and targets pillar, with an average fulfillment rate of only 17%. This indicates that quantitative, target-oriented, and performance-based sustainability

disclosures remain largely underdeveloped, reinforcing the overall finding that early adoption of IFRS S1 and S2 is constrained by limited measurement and data capabilities.

Overall, the results indicate that early adoption of IFRS S1 and S2 among carbon-intensive firms in Indonesia is characterized by low overall readiness, uneven disclosure practices, and pronounced disparities across disclosure pillars, with stronger emphasis on qualitative and governance-oriented disclosures and weaker alignment in risk management and performance measurement.

Discussion

The dominance of firms classified as having low readiness underscores the early and uneven nature of IFRS S1 and S2 adoption among carbon-intensive firms in Indonesia. Despite increasing regulatory attention to sustainability reporting, the findings suggest that comprehensive alignment with IFRS Sustainability Disclosure Standards has not yet been widely internalized at the organizational level.

From an institutional perspective, the relatively higher readiness observed in strategy disclosures and to a lesser extent governance disclosures reflects firms' initial responses to emerging regulatory and normative expectations. Strategy-related narratives and formal governance arrangements represent visible and legitimacy-oriented responses that allow firms to signal awareness of sustainability issues while maintaining flexibility in interpretation, as strategy-related narratives require fewer technical resources and allow greater interpretive flexibility than quantitative disclosures. Such responses are consistent with early-stage institutionalization, where symbolic or partial compliance often precedes substantive organizational change.

The lower readiness levels observed in risk management disclosures indicate that sustainability-related risks, particularly climate-related risks emphasized under IFRS S2, have not yet been fully integrated into core enterprise risk management processes. This suggests that many firms continue to treat climate-related risks as peripheral sustainability concerns rather than as financially material risks requiring systematic management and disclosure.

From a resource-based perspective, the very low readiness in metrics and targets disclosures highlights significant internal capability constraints related to data availability, measurement systems, and technical expertise. Quantitative, target-oriented disclosures demanded under IFRS S1 and S2 require reliable data infrastructures and standardized methodologies, which may not yet be fully developed in many carbon-intensive firms operating in emerging economies. As a result, firms tend to prioritize qualitative narratives over measurable performance indicators during the early adoption phase.

Taken together, the findings indicate that readiness for IFRS S1 and S2 adoption emerges from the interaction between external institutional pressures and internal organizational resources. This interaction produces heterogeneous disclosure responses among firms operating within the same regulatory and sectoral environment. The prevalence of low readiness, combined with particularly weak performance in metrics and

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targets, suggests that regulatory initiatives alone may be insufficient to achieve substantive adoption without parallel efforts to strengthen organizational capabilities.

From a practical standpoint, the results underscore the importance of capacity-building initiatives, technical guidance, and phased implementation approaches to support firms in transitioning toward comprehensive IFRS-aligned sustainability reporting. Enhancing capabilities in risk management integration and performance measurement will be critical to improving readiness levels as IFRS S1 and S2 implementation progresses.

Conclusion, Implications, Suggestions, and Limitations

This study provides a diagnostic assessment of the readiness of carbon-intensive firms in Indonesia for the early adoption of IFRS Sustainability Disclosure Standards S1 and S2. Based on a theory-informed content analysis of annual and sustainability reports from 89 listed firms, the findings reveal that overall readiness remains low, with more than half of the firms classified in the low readiness category. Only a small proportion of firms demonstrate moderate to high alignment with IFRS S1 and S2 disclosure requirements, indicating that early adoption is still limited at this stage.

The analysis further shows that readiness levels vary considerably across disclosure pillars. Firms tend to exhibit relatively higher readiness in strategy and governance disclosures, while substantial gaps persist in risk management and, most notably, metrics and targets disclosures. These patterns suggest that firms are more prepared to provide qualitative narratives and formal structures than to deliver quantitative, performance-based, and financially integrated sustainability information as required under IFRS S1 and S2.

Overall, the findings indicate that early adoption of IFRS Sustainability Disclosure Standards among carbon-intensive firms in Indonesia is characterized by uneven disclosure practices, symbolic or partial alignment, and significant organizational capability constraints. This highlights the challenges faced by firms in emerging economies as they transition from voluntary sustainability reporting toward standardized, investor oriented disclosure regimes.

The findings of this study have important implications for regulators, firms, and the academic community. From a regulatory perspective, the predominance of low readiness suggests that mandatory implementation of IFRS S1 and S2 without adequate transitional support may result in superficial compliance rather than substantive disclosure improvements, highlighting the need for implementation guidance, capacity-building initiatives, and phased enforcement, particularly for carbon-intensive sectors. At the firm level, the results indicate that sustainability reporting practices remain largely narrative-based, with limited integration of climate-related risks into core management and financial decision-making processes, underscoring the importance of strengthening internal coordination between sustainability, finance, and risk management functions.

From an academic standpoint, this study demonstrates that readiness for IFRS S1 and S2 adoption extends beyond technical compliance and reflects the interaction between institutional pressures and firm-specific resource constraints, thereby reinforcing the relevance of institutional theory and the resource-based view in explaining early-stage sustainability reporting practices in emerging economies.

Based on the findings of this study, several recommendations can be proposed. Regulators and standard-setting bodies are encouraged to adopt a phased and capacity-sensitive approach to IFRS S1 and S2 implementation, particularly given the low readiness observed in quantitative disclosures such as metrics and targets. Transitional provisions and sector-specific guidance may support gradual alignment without imposing excessive compliance burdens. At the firm level, carbon-intensive companies should prioritize the development of internal sustainability reporting capabilities by strengthening data systems, improving climate risk measurement, and integrating sustainability considerations into enterprise risk management and strategic planning processes. In addition, professional associations and training institutions can facilitate early adoption through targeted capacity-building programs on IFRS sustainability reporting and climate-related financial disclosures. Finally, future research is encouraged to extend this study using explanatory or longitudinal designs to examine the determinants of readiness, changes in disclosure practices over time, and the broader economic or governance implications of IFRS S1 and S2 adoption in emerging market contexts.

This study has several limitations that should be acknowledged. The analysis relies on publicly available annual and sustainability reports, which may not fully capture internal practices or informal processes related to IFRS S1 and S2 readiness; accordingly, the findings reflect disclosed readiness rather than actual implementation capacity. In addition, the study adopts a descriptive and diagnostic research design and does not test causal relationships between organizational factors and readiness levels, limiting the generalizability of the results and precluding inference regarding the determinants of readiness. Furthermore, the threshold-based classification employed in this study functions as a heuristic tool to facilitate interpretation and comparison but does not represent definitive compliance with IFRS S1 and S2 requirements. Despite these limitations, the study provides timely and policy-relevant insights into early-stage IFRS sustainability reporting readiness among carbon-intensive firms in Indonesia and offers a foundation for future research and regulatory development.

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