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Submission date: 24-Sep-2020 02:27AM (UTC+0700)
Submission ID: 1395092285
File name: Suistainability.docx (46.4K)
Word count: 3490
Character count: 21090

THE IMPACT OF SUSTAINABILITY REPORTING ON COMPANY FINANCIAL PERFORMANCE

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ABSTRACT

This study aims to analyze the effect of sustainability reporting on the financial performance of non-financial companies listed on the Indonesia Stock Exchange (BEI) in the period 2016 – 2018. Sustainability report is measured using the Global Reporting Initiative (GRI) G4 standard with three measurement indicators which are economic, environmental, and social aspects. Meanwhile, the companies' financial performance is measured using the Return on Asset (ROA) ratio. This study uses 16 non-financial companies as research samples. The multiple linear regression method is used as an analytical tool to test this research model. The results show that two of the three aspects of sustainability report measurement, which are economic and social aspects, are proven to have an influence on the companies' financial performance.

Keywords: Sustainability Report, Financial Performance, Global Reporting Initiative

I. INTRODUCTION

In Indonesia, the haze caused by forest and land fires covered many regions in Sumatera and Kalimantan in 2019. Nursalikah (2019) revealed that Ecoregion Development Control Center (P3E) in Sumatera noted in the Pollutant Standard Index (PSI) data that the air quality in Pekanbaru, Riau has been categorized as dangerous which can cause serious public health problems. Besides causing health problems, forest and land fires also cause losses in economic activities in the community, ranging from trade activities, tourism, to transportation that is experiencing delays. Forest and land fires in Sumatera and Kalimantan are allegedly caused by the practice of "land clearing" (a process before mining activities begin) by foreign companies which made this option as the easiest and cheapest way to expedite their business activities. Five foreign companies have been incriminated as the cause of the forest and land fires (Rahayu, 2019). The same problem also occurs in the Amazon as the largest tropical rainforest in the world which recorded its most severe fires in its history. Not long before, three million hectares of forest fires also occurred in Siberia, Russia. In addition, other countries such as Spain, Malaysia, Denmark, and the United States also experienced this similar problem (Hasan, 2019).

According to Burhan & Rahmati (2012), the information of non-financial performance of a company is an important matter that must be known by the stakeholders. This makes the company becomes more motivated to provide additional non-financial information, especially regarding to its activities, both those that have a direct and indirect impact on the environment and surrounding communities. One way is through a disclosure of sustainability report.

Sustainability report is defined as a report issued by companies or organizations about the economic, environmental, and social impacts caused by their daily activities (GRI, 2016). Sustainability reporting proves that the company has an overall responsibility for its economic, environmental, and social performance (Kasbun et al., 2017). Based on a survey report from (Ernst & Young, 2013), more than fifty percent of respondents who publish sustainability report have been helped in improving the company's reputation. Sustainability report disclosure has experienced development and proven to have a positive impact so that it becomes one of the important things for an organization or a company.

Sustainability reporting in Indonesia is still limited to voluntary. Although it is increasing from time to time, in fact the number of companies with sustainability reporting in Indonesia is still far behind compared to developed countries. Based on the data from the official website of the Financial Services Authority (OJK), nine percent of companies listed on the Indonesia Stock Exchange (IDX) have published a sustainability report in 2017. However, this number can still increase or decrease every year because sustainability reporting in Indonesia has not yet required.

Meanwhile, Kasbun et al. (2016) stated that there is a positive relationship between sustainability report disclosure in terms of economic, environmental, and social with the company's financial performance which is also supported by the result of a research by Nugroho & Arjowo (2014), Dewi&Sudana (2015), Bukhori & Sopian (2017), and Buallay (2018). However, it contradicts the result from the research of Sejati & Prastiwi (2015) and Asuquo et al. (2018) which stated that sustainability reporting has no effect on the company's financial performance.

Based on the description above, this study aims to examine the effect of sustainability report disclosure on the company's financial performance which is measured by the company's Return on Assets (ROA). This research is a replication of the previous research entitled “Sustainability Reporting and Financial Performance of Malaysian Public Listed Companies” by Kasbun et al. (2016).

II. THEORY FRAMEWORK & LITERATURE REVIEW

2.1. Signalling Theory

Signalling Theory is a method used by companies to provide signals in the form of information to investors listed in the company's external financial statements. Wijaya (2012) explains that the existence of this theory will help the company, owner, and outsiders to reduce the information discrepancy that can occur because the company knows more information and its future performance by generating quality or integrity of company’s financial statement. Nuswandari (2009) explains that major companies most likely would prefer capital from external sources. Signalling theory that underlies the sustainability report tells about how a company should signal financial statement users (Nuswandari, 2009).

2.2. Stakeholders Theory

Stakeholders theory is the manager's response to the existing business environment. Maintaining good relations with stakeholders is needed in order to accommodate their needs and wants, especially to those who have the power to control over the source of company’s capital (Chariri&Ghozali, 2007). How related parties want to be treated in the business processes, and what results they will get based on how they influence or are influenced by the business, is a major problem related to stakeholders theory (Lange, 2018). Tarigan&Semuel (2014) explains that to create a harmonious relationship between the company and its stakeholders, it is necessary to disclose sustainability report to meet stakeholders' expectations.

2.3. Legitimacy Theory

The aim is that the activities of the organization are recognized and accepted by external parties in a legitimate manner (Deegan, 2004). Because it is done on an ongoing basis, this also becomes an effort so that the relationship between the company and the surrounding environment runs well. Buallay (2019) states that legitimacy theory can explain the social and environmental aspects that are part of a company's business strategy. Laan (2009) explains in more detail that motivation in the theory of legitimacy comes from the company's efforts to obtain recognition from the environment, whereas in stakeholders theory, the initiative comes from the company's accountability to the stakeholders.

2.4. Sustainability Report

Sustainability report can be understood as a way for companies to respond to stakeholders requests for information on company performance and risk management (Ballou et al., 2006). Therefore, sustainability report can provide a broader view of how companies create value in the short and long term (Needles et al., 2016). Kasbun et al. (2016) revealed that with the voluntary disclosure of sustainability report, this shows that the company is responsible for its operational activities that have an impact on certain aspects. The aspects of the sustainability report are economic, environmental and social. Each aspect of an sustainability report has indicators to measure the performance of each aspect (Aras et al., 2017).

In the preparation of sustainability report, the Global Reporting Initiative (GRI) has become one of the references commonly used by companies throughout the world. The Global Reporting Initiative (GRI) establishes reporting principles and provides a standard guidance report for sustainability report. Initially, sustainability reporting in Indonesia was first initiated by the National Center for Sustainability Report (NCSR) as a developing independent institution and periodically provides an assessment of sustainability report submitted by companies in Indonesia. Sustainability report disclosures in Indonesia is still limited to voluntary and there are no regulations that specifically require companies established in Indonesia to disclose sustainability report.

2.5. Financial Performance

Financial performance can be measured using analysis of data obtained through financial statements where the main data as input in the analysis of financial statements is from company's balance sheet and income statement. Performance assessment of a company is a periodic determination of its operational effectiveness based on established targets, standards, and criterias (Tampubolon, 2005). One of the financial ratios associated with an analysis of a company's financial performance is Return on Assets (ROA) ratio.

Ross (2013) states that ROA is a measure of profit on company assets over a certain period. ROA can be formulated as a company's net income after taxes, and then divided by the total assets of the company

2.6 RESEARCH MODEL

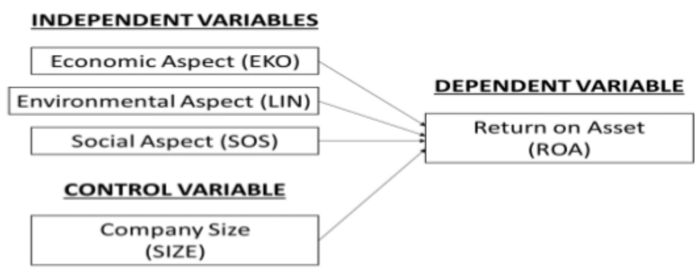

Figure 1 : Resarch Model

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The population used in this study is non-financial companies listed on the Indonesia Stock Exchange for the period of 2016 – 2018. The type of data in this study are secondary data sourced from the company's 2016 – 2018 sustainability report taken from the company's official website. Samples were obtained by using purposive sampling. Total research samples for the period 2016 – 2018 are 16 companies. This study uses five variables in which the dependent variable is financial performance which is proxied using Return on Assets (ROA). Furthermore, the independent variables of this study is the sustainability report which is divided into three aspects, namely economic aspect (EKO), environmental aspect (LIN), and social aspect (SOS), and one control variable, namely company size (SIZE). The research model uses the analysis of multiple linear regression method to test the direct relationship between the dependent variable and the independent variables using Eviews 9.

4. RESULTS & DISCUSSION

Based on analysis the result of the multiple linear regression equation is obtained as follows:

Table 1: Multiple Regression Analysis Result

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
EKO	0.0796	0.0275	2.8866	0.0069
LIN	0.0324	0.0334	0.9693	0.3396
SOS	-0.0879	0.0436	-2.0136	0.0525
SIZE	-0.0019	0.0014	-1.3607	0.1831
C	0.0819	0.0453	1.8070	0.0802
R-Squared			0.2543	
Adjusted R-squared			0.1610	
F-statistic			2.7282	

Probability (F-statistic)	0.0463
Durbin-Watson stat.	1.9112

$$ROA = 0.0819 + 0.07967(EKO) + 0.0324(LIN) - 0.0879(SOS) - 0.0019(SIZE)$$

Based on the results of the regression equation from the Table 1, the coefficient of determination test, the adjusted R-Square value is equal to 0.1610. This can be interpreted that in this study ROA as the dependent variable can be explained by the independent variable by 16.10%. Where the rest, that is 83.89% is explained by other factors outside the studied variables. So, it can be concluded that the regression model used in this study is not good in explaining the dependent variable because it is in a position below 50%. The probability value on the F-statistic based on the above research model is smaller than a (10%), which is 0.0463 which can be interpreted that model's is valid. Then, followed by a partial test (T-Test) the results of which can be concluded as follows:

The Disclosure of Economic Aspect in Sustainability Report Has an Influence on The Company's Financial Performance

The results of the regression analysis showed that the regression coefficient from the economic aspect (EKO) was 0.0796. This value indicates that ROA will increase by 7.97% for each increase in economic aspect. Assuming the other variables are constant. In addition, the probability of the independent variable EKO of 0.0069 or lower than a (0.1) which means the economic aspect of the sustainability report has a significant effect on ROA as a measure of corporate financial performance. With a coefficient value of 0.0796, which means that EKO is significant for the company's financial performance (ROA). From the results obtained, it can be concluded that the first hypothesis is accepted.

Thus, this study is in line with research conducted by Kasbun et al. (2016) which says that the disclosure of economic aspect in the sustainability report has a positive effect on the company's financial performance as measured by ROA. This indicates that the disclosure of economic aspect in the sustainability report by the company presents positive information about all activities related to economic problems faced by the company. In addition, sustainability report is a promotional media for the public so that companies will be increasingly received with positive values by the public. This has triggered companies to improve their performance and ability to make a profit (Soelistyoningrum & Prastiwi, 2011).

The results of this study are in line with stakeholder's theory, to maintain good relations with stakeholders, the company needs to disclose all information related to the company's activities clearly and transparently.

The Disclosure of Environmental Aspect in Sustainability Report Has an Influence on The Company's Financial Performance

On the environmental aspect, the regression coefficient from the environmental aspect (LIN) is 0.0324. This value indicates that ROA will increase by 3.24% for each increase in environmental aspect. Assuming the other variables are constant. The regression analysis results show that the probability of the independent variable Environmental Aspect (LIN) of 0.3396 or greater than a (0.1), which means LIN does not have a significant effect on company financial performance (ROA). From the results obtained, it can be concluded that the second hypothesis is rejected. This result is not supported by Adhima (2011), but in line with research conducted by Sejati & Prastiwi (2015). Thus, the results of this study are not in accordance with the signalling theory which states that the disclosure of sustainability report can improve the future performance of a company by producing quality (Wijaya, 2012). Aggarwal (2013) states that disclosure of environmental aspect in sustainability report is considered a company burden that has the potential to reduce company performance.

The Disclosure of Social Aspect in Sustainability Report Has an Influence on The Company's Financial Performance

The regression coefficient from the social aspect (SOS) is equal to -0.0879. This value indicates that ROA will decrease by 8.80% for each increase in social aspect. Assuming the other variables are constant. Then, the results of the regression analysis showed that the probability of the independent variable on the social aspect (SOS) was 0.0525 or lower than a (0.1). This means that SOS has a significant influence on the company's financial performance (ROA). From the results obtained, it can be concluded that the third hypothesis is accepted. The disclosure of social aspect of the sustainability report significantly has a negative effect on financial performance. The results are not in accordance with research conducted by Burhan & Rahmanti (2012) which shows that disclosure of social aspect on sustainability report has a significant effect on financial performance. However, the results of this study are in line with research conducted by Adhima (2011). According to Adhima (2011), to carry out social activities requires a very large cost of expenditure, then reduce the opportunity to increase maximum profit. The results of this study are not support with the theory of legitimacy explaining social aspect. According to this theory, social aspect is part of a company's business strategy (Buallay, 2019). The theory has the aim to gain recognition and acceptance by all parties (internal and external of the company) legitimately so as to increase company performance (Deegan, 2004).

III. CONCLUSION

This research was conducted with the aim of finding out whether there are effects of each aspect (economic, environmental, and social) disclosed in the sustainability report on the company's performance which is proxied by Return on Assets (ROA). The results of this study are: (i) The disclosure of economic aspect in sustainability report has a significant positive effect on corporate financial performance, (ii) The disclosure of environmental aspect in sustainability report does not have a significant effect on corporate financial performance, and (iii) The disclosure of social aspect in sustainability report has a significant negative influence on the company's financial performance.

Implication of this study can be a reference for companies to raise the level of financial performance of the company. This will result in companies that transparently disclose economic aspect in the sustainability report which can then be taken into consideration by the stakeholders and become an attraction for investors to invest in the company.

The limitation of this study is that this study only uses non-financial companies listed on the Indonesia Stock Exchange (IDX) for the period of 2016 – 2018. Further research is expected to be able to increase the research sample, namely with financial companies and increase the year of research. In addition, this study only uses one measure of financial performance, namely Return on Assets (ROA) ratio. Future studies are expected to be able to add other variables in financial performance such as Return on Equity (ROE) ratio, Return on Investment (ROI) ratio, and Tobin's Q ratio as well as add research time, so the research results will be relevant for the present.

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