The Effect of Sustainability Report Disclosure on Financial Performance

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Abstract: The purpose of this study was to analyse the effect of sustainability report disclosures on financial performance. Sustainability report disclosures can be seen from economic performance, environmental performance and social performance in accordance with the Global Reporting Initiative (GRI) index. The population of this study are all companies that were nominated for the Sustainability Reporting Award (SRA) in 2013-2016 as much as 69 companies. The sample was obtained by 13 companies using purposive sampling technique, so that the numbers of analysis units were 39. Data are collected by documentation techniques, by downloading the annual report and sustainability reporting through the company's website, IDX and the National Centre for Sustainability Reporting (NCSR). The data analysis used in this study is descriptive statistical analysis and multiple regression analysis. The results of this study show partially that social performance disclosure variables affect financial performance, while the disclosure of economic performance and social performance is not able to influence. Simultaneously, sustainability report disclosures affect financial performance. Future research is expected to use a wider sample, not limited to companies listed on the IDX. It is hoped that in the future more companies will make and issue sustainability report.

1 INTRODUCTION

Good financial performance is one basis for investors in making investment decisions (Ganto et al., 2008). Investors need financial performance information because they can describe the real condition of the company. Putri (2013) states that investors need information to see the company's prospects associated with the costs they will incur to invest. Investors prefer companies that disclose a lot of company information because they are considered to be lower risk companies. One of the information sources for external parties in assessing company performance is Sustainability Reporting (SR).

Elkington (1997) defines sustainability report as a report that contains financial and non-financial information consisting of information on social and environmental activities that enable companies to grow sustainably. The importance of drafting the sustainability report is because it contains disclosure principles and standards that reflect the overall level of company activity, not just focusing on financial aspects. The disclosure of sustainability report can be used as a strategy for companies to improve the company's financial performance (Burhan and Rahmanti, 2012). Hastuti (2005) states that there are several factors that influence the high and low performance of a company, which are concentrated or not concentrated ownership, profit manipulation (income smoothing), and level of disclosure.

The development of sustainability report in Indonesia, in 2005-2006 was only 5 companies that published it. In 2011 Ali Darwin, Chairman of the National Centre for Sustainability Report (NCSR) revealed, of the 438 companies listed on the Indonesia Stock Exchange (IDX) only 25 companies issued sustainability reports (Gunawan, 2011).

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Based on data from the Global Reporting Initiatives (GRI) in December 2016, as many as 120 companies have made and published their reports. This shows that the sustainability report disclosure in Indonesia is not optimal. Adams et al. (2010) said that one of the factors that caused a company not to compile the sustainability report was due to the uneven viewpoint of the executives in looking at the sustainability report.

Previous research on sustainability report on financial performance has mixed results. Soelistyoningrum (2011), Handayani (2014), Putri, (2015) and Safitri (2015) stated that sustainability report disclosure had a positive effect on financial performance. Arjowo (2013) and Wibowo and Faradiza (2014) show that disclosure of sustainability report does not significantly influence the company's financial performance. Muallifin and Priyadi (2016) show that sustainability report influences financial performance measured using the current ratio.

The existence of sustainability report makes the trust of investors to invest in companies will increase. Investors prefer to invest in companies that are transparent because their trust in the management higher that will forecast analysis more accurately and lower asymmetry information (Ernst & Young, 2013). Research on the effect of sustainability report on financial performance has yet to get a constant conclusion, so it is interesting to be analysed again. This research refers to the latest Global Reporting Initiative, namely Global Reporting Initiative 4.0.

2 THEORICAL FRAMEWORK

The theory underlying this research is legitimacy theory and stakeholder theory. Legitimacy Theory is stated by Deegan (2000) as a theory that assumes that companies continually strive to ensure the operations they carry out are under existing social norms and rules. They want to make sure that the business they run is a legitimate and legal business. Legitimacy theory believes in the existence of a social contract between the company and the social environment in which they operate. The concept of legitimacy theory assumes that society has expectations of company performance. Companies will be considered to have carried out their operations according to social rules and norms if they can meet the expectations of the community. Therefore, companies must consider the rights of the community at large such as social and environmental rights of the community as a form of corporate responsibility towards them. This reflects that the company will disclose voluntary reports to show that the operations they carry out are in accordance with what is expected by the community (stakeholders) as a whole. For this reason, companies need to develop sustainability reporting.

The basic concept of Stakeholder theory built by Freeman (1984) defines that stakeholder as individuals or organizations that influence the company in achieving its objectives and also influenced by activities carried out by the company. The parties that can be said as company stakeholders include shareholders, creditors, government, employees, the surrounding community, and future generations (Burhan and Rahmanti, 2012). In simple terms, stakeholder theory describes which parties the company must be responsible for. Therefore, companies must maintain good relationships with all stakeholders by accommodating the wants and needs of their stakeholders. One good step to maintain relationships with stakeholders is by disclosing the sustainability report. Sustainability report reveals not only economic performance, but environmental and social performance. The complexity of the substance contained in sustainability reports is expected to be able to meet all information needs of stakeholders. Meeting these information needs is expected to be able to establish harmonious relations between the company and its stakeholders (Adhima, 2013).

Sustainability reporting based on GRI 4.0 consists of three types of disclosures, namely economic performance disclosure, environmental performance disclosure, and social performance disclosure. Sustainability reporting is an embodiment of the three types of disclosures incorporated into one whole unit. In this study each of these disclosures is independently standing variables in accordance with Nofianto and Agustina (2014). The Economic Performance Disclosure shows the impact of the company's operations on the micro and macroeconomic environment. Companies that have a major influence on improving the micro and macro economy will attract investors and customers to join as fund advocates and users of company products. The higher support given by the company to macroeconomic conditions shows the more vital and significant role of the company in the economy. By disclosing the company's economic performance on sustainability reporting, it will affect the company's financial performance. This is in accordance with Putri (2017) which shows that economic dimension variables have a positive effect on financial performance.

Environmental performance disclosure is a disclosure of the impact of the company's operations on the environment and the steps taken by the company to improve the quality of the surrounding environment. Disclosure of this environmental performance is important for the community so that the company will strive to disclose more in sustainability reporting to minimize existing risks. This will make the community, including investors, believe in investing so that it will increase the company's financial performance. Adhima (2013) also states that environmental performance disclosure has a positive influence on the company's financial performance.

Social Performance Disclosure reveals the social impacts caused by company activities and the steps taken by the company to overcome this. This disclosure will create a positive impression in the public. The impact of this disclosure will be the higher stakeholder trust in the company so that company performance will continue to improve, including the company's financial performance. Burhan and Rahmanti (2012) prove that social performance disclosure has a significant influence on the company's financial performance. Based on the description, the hypotheses in this study are:

H1: Economic Performance Disclosure has a positive effect on financial performance
H2: Environmental Performance Disclosure has a positive effect on financial performance
H3: Social Performance Disclosure has a positive effect on financial performance
H4: The Disclosure of Economic Performance, Environmental Performance and Social Performance Disclosure simultaneously affect the financial performance

3 RESEARCH METHOD

This research is a quantitative research where the data used is quantitative data obtained from sustainability reporting, and annual reports issued by the company. The population in this study were all companies that were nominated for the Sustainability Reporting Award (SRA) during the 2014-2016 period of 69 companies. The research sample was obtained using purposive sampling technique with the criteria (1) companies listed on the Indonesia Stock Exchange (IDX) and published Sustainability Reports and Anual Reports in 2014-2016 and can be accessed through company websites, (2) companies publishes Sustainability Report with the latest guidelines from the Global Reporting Initiative (GRI), GRI-G4, (3) companies provide complete information regarding the variables studied, namely the current ratio (CR). Based on these criteria obtained a sample of 13 companies with a three-year observation period, so that the analysis unit was 39. Most of the companies that were nominated for SRA were not listed on the IDX which amounted to 71% (49 companies).

The variable of this study consisted of one dependent variable namely financial performance and three independent variables, namely three dimensions of sustainability reporting disclosure (Economic Performance Disclosure, Environmental Performance Disclosure and Social Performance Disclosure). Financial performance is proxied by liquidity ratios, which is a ratio that measures a company's ability to meet its short-term obligations. The liquidity ratio in this study uses the current ratio (CR), which is current asset divided by current debt. Sustainability reporting is measured using the Sustainability Report Disclosure Index (SRDI), both the overall score index and the respective performance. Overall, there are 91 sustainability report assessment items based on the GRI G4 Guidelines. Environmental Performance Disclosure consists of 34 and the Social Performance Disclosure consists of 48 items. SRDI calculation is done by giving a score of 1 if an item is disclosed, and 0 if not disclosed. After scoring all items, the score is then added to get the total score for each company. The formula for calculating SRDI is the number of items disclosed by the company divided by the number of items expected in the GRI G4 Guidelines.

The data used in this study is secondary data in the form of annual reports and the company's sustainability report with documentation techniques. These data are obtained by downloading the annual report and sustainability report on the ISRA website (http://sra.ncsr-id.org) or can be accessed directly on the website of each company. The data collected was analysed by descriptive statistical analysis and multiple regression analysis.

4 RESULTS AND DISCUSSION

The results of the descriptive statistical analysis are presented in the following Table 1:

Table 1: Results of Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CR	39	1,23	40,30	9,23	4,66
EC	39	0,22	0,78	0,32	,024
EN	39	0,03	0,97	0,32	,034
SO	39	0,08	0,98	0,32	,020
Valid N (list wise)	39				

Table 1 shows that the number of units analysed is 3 9. Financial performance measured by the current ratio has a good average of 9.23 where the company in this study sample has sufficient current assets to pay its short-term debt. Disclosure of economic performance, environmental performance and social performance in the SR in this study had almost the same average of 0.32. This shows that companies are still lacking in disclosing their performance in the SR because the average figure is still below 50%, although there are high disclosures but most are still less than 50%.

Data that will be tested for multiple regressions previously must be tested classic assumptions with normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The data in this study have been tested for classical assumptions and have met the BLUE (Best Linear Unbiased Estimator) requirements. The recap of the results of the regression analysis is as follows:

Table 2: Results of Multiple Regression Analysis

Hypotheses	Coefficient	Significance	Result
H1	7,933	0,799	rejected
H2	33,538	0,109	rejected
H3	111,661	0,002	accepted
H4		0,001	accepted

Table 2 shows that only two hypotheses are accepted, namely the disclosure of social performance partially and testing simultaneously able to influence financial performance (CR).

The first and second hypotheses of this study show that disclosure of economic performance and environmental performance in sustainability reporting has no effect on financial performance. Economic performance disclosure does not have a significant influence on the company's financial performance because this research is conducted in the short term. Adams et al. (2010) states that the sustainability report will have a significant influence in the long run. While if the research is conducted in the short term it will not have a significant effect. The second reason underlying the rejection of the hypothesis is that the average financial performance of the company studied is quite high (9.22%) so that disclosure of economic performance does not have a significant impact on the company's financial performance.

Jin et al. (2010) revealed that environmental performance disclosure will affect the market response in a long period of time. After the market reaction moves in a positive direction, the company will develop and its financial performance will improve. However, in the short term, the impact cannot be seen because the effect of disclosing environmental performance on the company's financial performance does not occur instantly. The results of this study are in line with Putri (2018) which states that economic performance and environmental performance have no effect on liquidity. Burhan and Rahmanti (2012) and Putri (2017) who stated that environmental performance disclosure does not have a significant effect on the company's financial performance.

Disclosure of social performance in this study has a positive effect. Companies that disclose social performance on sustainability reporting will increase their financial performance. This is in accordance with the legitimacy theory where the community has a lot of expectations for the company's performance. Companies will be considered to have carried out their operations according to social rules and norms if they can fulfil these expectations. Companies need to consider social rights of the community as a form of corporate responsibility. For this reason, companies disclose voluntary reports, namely through disclosure of social performance, to show that the operations they carry out are in accordance with what is expected by the community as a whole. Burhan and Rahmanti (2012) state that disclosure of social performance influences company performance.

Disclosure of performance in sustainability reporting simultaneously affects financial performance. This is in accordance with the stakeholder theory in which the company must maintain good relations with all its stakeholders to accommodate their wishes and needs. One good way to keep that relationship is to reveal the sustainability report. Sustainability report reveals not only economic performance, but environmental and social performance. The complexity of the substances contained in the sustainability reporting expected to be able to satisfy all the information needs of stakeholders. Adhima (2013) suggests that the fulfilment of information needs is expected to establish a harmonious relationship between the company and its stakeholders. These results are in accordance with Pratiwi and Sumaryati (2014) which prove the sustainability report influences financial performance. Muallifin and Priyadi (2016) prove sustainability report influences financial performance as measured by the current ratio.

5 CONCLUSIONS

The conclusions of this study based on the results are only two of four hypotheses which are accepted, namely the disclosure of social performance and disclosure of performance in sustainability report simultaneously. Future studies are expected to use a sample not limited to companies listed on the IDX because some of the companies that were nominated for SRA for the 2014-2016 period were 71% not listed on the IDX. Further research is expected in a longer period of time to fully illustrate the effect of sustainability report on financial performance and add moderating variables. Sustainability report for companies is very important, especially for go public companies and listed on the IDX, it is hoped that in the future more companies will make and issue sustainability report.

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