



THE EFFECT OF SUSTAINABILITY REPORT DISCLOSURE ON COMPANY FINANCIAL PERFORMANCE

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Abstract

This research aims to examine the Influence of Sustainability Report Disclosure on Company Financial Performance for companies across various sectors that have successfully entered the List of Rating Asia Sustainability Reporting (ASRRAT) and are listed on the Indonesia Stock Exchange (BEI) during the period 2018-2020. By adhering to the criteria of purposive sampling, data was obtained from 13 companies, which served as the sample, comprising 39 observational data points that met the criteria. The data analysis method employed in this study is Partial Least Square (PLS) regression analysis using Warp PLS software. The hypothesis testing results indicate that Sustainability Report disclosure economic dimension has a positive and significant impact, environmental dimension has a negative and significant impact, social dimension does not have a significant impact on a company's financial performance. Companies must consider the trade-off between social and environmental responsibilities and their financial impact on financial performance.

Keywords: Sustainability Report, Financial Performance, Global Reporting Index.

INTRODUCTION

Times that are increasingly developing as time goes by can have an impact on the development of the business sector. However, in Indonesia the majority of companies are focusing on disclosing or preparing financial reports that only relate to financial performance. Efforts made by company management to attract investors' interest include not only disclosing reports relating to financial performance, but also need to be supported by reporting a number of other information. Eipstein and Freedman (1994) in Cai et al. (2019) explained that reporting additional information in the annual reports carried out by companies in recent years can make investors interested. In recent years, companies have disclosed additional information in an integrated manner in their annual reports. Additional information or it can also be said to be corporate social responsibility generally relating to the economy, politics, social and environment.

Elkington (1997) in Goh et al. (2020) explains that if a company wants to survive the intense competition, then the company must pay attention to the Triple Bottom Line (3P) where apart from achieving the maximum profit, it also contributes to providing welfare to the community (*People*) and preserving surrounding nature (*planet*). Jum'a et al. (2022) stated that in sustainability reports, triple bottom line disclosure is able to provide an increase in transparency regarding the influence of the company's environmental, social and economic activities. Therefore, future opportunities and the magnitude of threats and risks faced by the company can be known.

Considerations related to profit, environmental sustainability (*planet*) and the welfare of society (*people*) are an effort implemented by company managers or leaders to achieve sustainable development

through a number of operational activities carried out responsibly. By disclosing a report on corporate social responsibility activities that have been carried out by the company, the company is able to prove that the company is not only based on its financial condition, but also provides information regarding social and environmental matters as outlined in the Sustainability Report. The Sustainability Report is said to be a performance sustainability report, where the report is published for the public interest which includes three pillars, namely social, environmental and economic. Sustainability reports are also seen as a form of transparency and accountability for public companies and issuers regarding the impact of their activities on social, environmental and economic issues. Viewed based on Sustainable Development conditions, Sustainability Reports are considered as a forum for presenting information related to the contribution of public companies and issuers to achieving the goals of Sustainable Development Goals/SDGs (Sustainable Development/TBP) (Almeida et al., 2023).

In Indonesia itself, currently disclosure of Sustainability Reports is still voluntary. There are approximately 9% of companies that have published a Sustainability Report voluntarily and are registered on the Jakarta Stock Exchange (BEI). Currently, almost the majority of companies in Indonesia publish Sustainability Reports based on the disclosure standards stated in the GRI (Global Reporting Index) (Ebaid, 2023). The increase in disclosure of sustainability reports carried out by a number of companies every year has become a recent phenomenon in Indonesia. In 2018, in Indonesia there were 56 companies that carried out Sustainability Report disclosures, where this number shows an increase because in 2005 there were only 7 companies. This can be interpreted as if the company has a better sense of attention and care regarding sustainability in the social, environmental and economic fields. According to Hadad (2015) in Yulianty and Nugrahanti (2020) stated that a significant increase has been felt by companies that include additional reports regarding sustainability, social and environmental issues in their financial reports. The company takes proactive steps in collecting, reporting and analyzing a number of stages to minimize the potential for business risks by consistently protecting all shareholders. The company also strives to improve performance, especially with regard to voluntary initiatives, performance standards, codes of ethics, laws and norms as well as a number of specific issues that can be managed and measured effectively through the Sustainability Report.

Based on the background described above, this research seeks to examine the influence of Sustainability Report Disclosure on Company Financial Performance in several company sectors that have successfully entered the Asia Sustainability Reporting Rating List (ASRRAT) and have been registered on the BEI for the 2018-2020 period.

METHOD

The research that will be carried out is included in the type of quantitative method. In general, quantitative methods are familiar with using numerical data and in the analysis process using statistics. Based on Sugiyono's opinion (2019: 15), the Quantitative Method is interpreted as a scientific method

because it has completed a number of scientific principles, namely replicable, systematic, rational, measurable, objective and empirical (concrete). Based on the level of explanation (explanation), this form of research is called associative research. The associative method is a method that is generally referred to as causal correlation research (cause and effect relationship), which aims to understand whether or not there is a correlation that occurs between two or more variables, or the correlation between independent variables and dependent variables (Creswell & Creswell, 2019: 217).

The research that will be carried out this time has the aim of finding out the impact that disclosure of sustainability reports has on the company's financial performance, so that it can produce concrete evidence regarding whether or not there is a significant influence from sustainability. In this research, the research objects used are annual reports and Sustainability Reports or sustainability reports of companies that are registered on the Indonesian Stock Exchange and ASRRAT for the 2018-2020 period. The independent variable that is the main focus in this research is the Sustainability report, which consists of three (3) dimensions, namely environmental, social and economic dimensions. Disclosure of these three dimensions will later use the GRI (Global Reporting Initiative) standards. The GRI standard was implemented because it is one of the disclosure standards that is currently developing in Indonesia. And the study focuses on various aspects of standards. According to Villiers et al. (2022) in their research explains that the sustainability reporting variable is measured through the use of SRDI (Sustainability Report Disclosure Index). Based on the G4 Guidelines for Global Initiative Reporting (GRI), sustainability reports are expressed by taking into account three dimensions, namely social, environmental and economic. There are 91 sustainability report assessment items in total according to the GRI G4 Guidelines. The way to calculate it is:

$$\frac{\text{Total economic, environmental and social disclosure score}}{\text{Total of All GRI Disclosures (91 Poin)}} \times 100\%$$

Financial Performance is the dependent variable used in this research. In general, a company reflects its financial performance in financial reports. Return On Assets is applied in this research as a financial performance ratio (Soewarno & Tjahjadi, 2020). To find out the percentage of net profit, it must be divided by total assets. Then these calculations can be calculated using the formula:

$$ROA = \frac{\text{Profit after tax}}{\text{total assets}} \times 100\%$$

After the data is obtained and collected, validity and reliability testing of the data is carried out to assess the accuracy of the data (goodness of data), while in this research hypothesis testing is carried out by paying attention to the path coefficient. The aim is to test the correlation between the independent (free) variable and the dependent (bound) variable via PLS (Partial Least Square) or partial regression analysis using the Warp PLS software program.

RESULTS AND DISCUSSION

The data that has been successfully obtained through adjusting the purposive sampling categories can be understood in detail in the table below:

Tabel 1. Process for Determining Research Samples

No.	Criteria	Amount	
		Accept	Not Accepted
1.	Companies included in the List of Ratings - Asia Sustainability Reporting Rating (ASRRAT)	60	
2.	Companies listed on the List of Ratings – Asian Sustainability Reporting (SR) for 3 consecutive years during the period 2018 – 2020	36	24
3.	Companies that have been listed on the Indonesian Stock Exchange during 2018-2020	13	11
4.	Companies that publish Sustainability Reports at least twice during the 2018-2020 period.	13	0
5.	Companies that publish financial reports at least twice during the 2018-2020 period.	13	0
Number of Companies selected as Research Samples		13	
Total Number of Samples (13 x 3 Year Research Period)		39	

Source: Processed Data (2023)

Based on Table 1, 13 company samples or 39 observation data were obtained that met the criteria, while the rest did not meet the criteria because they did not publish a sustainability report and had experienced delisting from the List of Ratings – Asian Sustainability Reporting (ASRRAT) over a period of 3 consecutive years for the period 2018 – 2020. PLS analysis testing is carried out using two data testing stages, namely the goodness of data level testing stage (data accuracy) assessed based on validity and reliability tests or can be called the outer model stage and the outer model stage. model suitability testing which tests the influence of the relationship between variables and hypothesis testing or can be called the inner model stage. Analysis related to the validity and reliability tests of indicators from PLS is contained in the outer model testing stage. Indicator validity testing includes discriminant validity and convergent validity testing, while reliability can be determined based on the composite reliability test value. The outer loadings table can be used to determine the value of convergent validity. The loading factor has a limit value of 0.70. If the loading factor value is > 0.07 , then convergent validity is met. If the value of the loading factor is < 0.70 , then the construct is required to be dropped from the analysis (Hair et al., 2019: 112-113). The following are the results of convergent validity testing:

Tabel 2. Descriptive Statistics Calculation Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Economic Dimensions	39	0.060	0.940	0.328	0.197
Environmental Dimensions	39	0.030	0.800	0.396	0.212
Sosial Dimensions	39	0.080	0.680	0.324	0.166
ROA	39	0.100	18.000	3.822	3.379

Source: WarpPLS 8.0 Processed Data (2023)

Table 2 shows that the value of the exogenous variable for disclosure of social, environmental and economic dimensions assessed using GRI standards, as well as the endogenous variable of financial performance proxied by ROA, has a mean value > standard deviation value, meaning that the data from each indicator is homogeneous or has low variation. This shows that the majority of respondents from this study answered in the range of agree and strongly agree.

Tabel 3. Hasil Perhitungan Nilai Combined Loading Factor

Variable	Economy Dimension	Environmental Dimension	Social Dimension	ROA	P-Value
Economy Dimension	1.000	0.000	-0.000	-0.000	<0.001
Environmental Dimension	0.000	1.000	-0.000	-0.000	<0.001
Social Dimension	-0.000	0.000	1.000	-0.000	<0.001
ROA	0.000	0.000	-0.000	1.000	<0.001

Source: Processed Data Warp PLS 8.0 (2023)

Table 3 shows that the convergent validity value in the tests that have been carried out, the exogenous variable of disclosure of economic, environmental and social dimensions assessed using GRI standards, as well as the endogenous variable of financial performance proxied by ROA obtained a value of 1,000 > 0.70, so that it can meet the specified criteria limits. determined. The next testing stage is discriminant validity. The purpose of carrying out this test is to confirm that each concept derived from the latent variable is different from other variables (Hair et al., 2019: 114-115). The criterion in this test is that the cross loading value must be > the value of the other construct. Based on Table 3, it shows that all latent variables have positive discriminant validity, where all latent variables do not have measures that are highly correlated with other constructs. Comparing the square root AVE (Average Variance Extracted) values of all constructs with the relationships between other constructs in the model is able to measure discriminant validity. The AVE value is required to be > 0.50 or have a p-value < 0.05 or at a significance level of 5% (Hair et al., 2019: 114-115). In this research, the results obtained from measuring discriminant validity can be understood in the table below:

Tabel 4. Average Variance Extracted Calculation Value

Variable	AVE
Economy Dimension	1.000
Environmental Dimension	1.000
Social Dimension	1.000
ROA	1.000

Source: WarpPLS 8.0 Processed Data (2023)

The results are based on Table 4. AVE (Average Variance Extracted), all variables have a discriminant validity value of more than 0.50. According to these results, a conclusion can be drawn if all variables are convincing and declared valid. The composite reliability value can be used to measure reliability in this research. The reliability coefficient is implemented to determine whether a research

measuring instrument is reliable or not. Reliability coefficient must be > 0.70 (Hair et al., 2019: 111-112). The following are the results of composite reliability measurements which can be understood in the following table:

Table 5. Composite Reliability Calculation Value

Indicator	Composite Reliability
Dimensi Ekonomi	1.000
Dimensi Lingkungan	1.000
Dimensi Sosial	1.000
ROA	1.000

Source: WarpPLS 8.0 Processed Data (2023)

Based on Table 5, all variables have a composite reliability value > 0.70 . According to the results that have been obtained, a conclusion can be drawn if in this study all variables are declared reliable and can be trusted to be used in further analysis testing. The purpose of testing the structural model or inner model is to measure the overall correlation of the research variables. The R^2 and Q^2 values are applied to the inner model measurements in order to test the influence between variables. The coefficient of determination or R Square (R^2) is a test carried out to measure model harmony (goodness of fit). The R^2 value is between 0-1, and the model fit is stated to be better the closer R^2 is to 1 (Hair et al., 2019: 114-115). Based on the R^2 value, a model can be categorized as strong (≤ 0.70), medium (≤ 0.45) and weak (≤ 0.25).

Table 6. R Square Value Calculation Results (R^2)

Indicator	R Square
Financial Performance (ROA)	0.071

Source: WarpPLS 8.0 Processed Data (2023)

Based on Table 6, the results of testing the R-square value above can be interpreted that the endogenous variable of financial performance which is proxied by ROA has an R-square value of 0.071 which indicates that the model is "weak" because the R-square value is ≤ 0.25 so that it is suitable. The model that can be explained by the Financial Performance variable is 7.1%, while the remaining 92.9% is described by other variables in the external model. Based on Hair et al. (2019: 178-179), predictive relevance or Q square is a measure of the ability of a model to predict model fit testing observations based on the data used to estimate the model relationship. This test measures the dissimilarity between the actual value and the predicted value of the dependent variable, adjusted for the number of predictor variables and degrees of freedom of measurement or standard error. If the Q-square value > 0 indicates that the Independent variable has predictive relevance for the Dependent variable. Furthermore, if the Q Square value is < 0.15 then the predictive relevance is classified as low, if the Q Square value < 0.35 is classified as moderate and if the Q Square value is $0.35 < Q^2$ then it is classified as strong.

Table 7. Hasil Perhitungan Q Square (Q^2)

Indicator	Q Square
Financial Performance (ROA)	0.426

Source: WarpPLS 8.0 Processed Data (2023)

Based on the results of the Q square analysis, it can be interpreted that the endogenous variable of financial performance which is proxied by ROA has a predictive relevance (Q square) value of 0.426. This means that the structural model in this research estimates the parameters and produces a relationship value for each variable of $0.426 > 0.35$, this shows that the model has a strong predictive relevance (Q square) value for the endogenous variable of financial performance which is proxied by ROA. The purpose of carrying out the fit test on this model is to determine whether the model is suitable (fit or not). In this research, the model fit test utilizes 3 measurement indicators, namely average path coefficient (APC), average R-square (ARS), and average variance inflation factor (AVIF).

Table 8. Fit Model and Quality Indice Values

Fit Model Indicator	Index	P-value	Results
APC	0.242	0.025	Accepted
ARS	0.071	0.175	Accepted
AVIF	1.416	-	Accepted

Source: WarpPLS 8.0 Processed Data (2023)

Based on the table above, the P-value for APC and ARS is t-table (1.96) with a significance value of 0.05, so the value of the path coefficient can be declared significant (Hair et al., 2019: 120). This research has three test hypotheses. The results of each test are listed in the following table:

Table 9. Hypothesis Testing Results

Indicator	β	P-value	Results
DE → KK	0.315	0.031	Significant Influence
DL → KK	-0.292	0.045	Significant Influence
DS → KK	-0.175	0.165	No Significant Effect

Source: WarpPLS 8.0 Processed Data (2023)

The influence of disclosure of the economic dimension of sustainability reports has been proven to have a significant influence in improving a company's financial performance. This shows that the higher the sustainability report disclosure in the economic dimension carried out by a company, the Return on Assets (ROA) obtained by the company will also be higher. In the economic dimension, Sustainability Report disclosure is also able to foster a positive image for the company, both in the capital market and commodity markets (Girón et al., 2021). Consumer loyalty for sales carried out by the company will be higher and more attractive to investors, if the company has a positive image in front of the public. This can be interpreted as if there is an increase in disclosure of economic aspects, the company's performance will also increase. Disclosures on economic aspects can show the company's operational performance or the economic environment, both large and small. It is important for all investors to disclose a number of company economic aspects (Aydoğmuş et al., 2022). Funds obtained from investors can provide improvements to the company's operations and working capital.

The second hypothesis in this research states that the environmental dimension of the Sustainability Report has a significant negative influence on the company's financial performance. This describes that if the disclosure of sustainability reports on the environmental dimension is higher, it will have an impact on decreasing the company's financial performance. This decrease is due to the increase in expenditure carried out by the company due to the disclosure of sustainability reports in the environmental dimension as funding is spent to increase production and sales so that it will have an impact on decreasing company profits because environmental disclosure requires quite a lot of costs (Septiana et al., 2019). The findings of the Environmental Dimension Sustainability Report Disclosure support the legitimacy theory where companies can carry out their operations in line with the norms and frameworks that apply in society and the environment (Deegan, 2019). Not only that, in this research the results obtained support stakeholder theory as a form of transparency towards stakeholders regarding how the company carries out its business operations.

The third hypothesis in this research states that the social dimension of the Sustainability Report has an insignificant and negative influence on the company's financial performance. The social dimension in the company is related to the implementation of Corporate Social Responsibility (CSR), improving employee welfare, and also the company's efforts to establish cooperation with both the community and stakeholders (Ibáñez-Forés et al., 2023). With the increasing number of efforts made by companies from a social perspective, this can help companies to maintain good relationships with stakeholders, employees and the surrounding environment. However, in this research, the disclosure of the social dimension in the sustainability report has the opposite direction to financial performance because in its implementation, a number of these things require quite large funds to be spent (Hongming et al., 2020). Thus, the disclosure of the social dimension in the sustainability report in this study had an insignificant impact.

Based on the results of the analysis, it shows that all the information contained in the disclosure of economic performance has a significant and positive impact on the financial performance of companies included in the Asia Sustainability Reporting Rating List (ASRRAT) and listed on the IDX for the 2018-2020 period. Information regarding the economic dimensions contained in the sustainability report is able to ensure that the level of risk of potential competitive capital resources is lower for stakeholders (Girón et al., 2021). Recent research conducted by Nurunnabi (2021) suggests that companies that have transparency in terms of the accuracy of analysis and forecasting, and whose published information has lower asymmetry, will be more attractive to investors for investment. The trust given by creditors and investors is able to provide an increase in the company's total funding. The company's working capital and operations will increase through financial support from investors.

It was concluded that disclosure of sustainability reports had a significant negative influence on financial performance. This happens because companies that disclose sustainability reports require expenditure related to sustainable activities, namely environmental, social and economic. The company

is unable to increase profits because these expenses are considered expenses. In this research, the results obtained are in line with research conducted by Tangke et al. (2022) and Septiana et al. (2019) who stated that the environmental dimension has a negative impact on financial performance. This shows that responsibilities that are correlated with the environment are still considered as additional expenses or funds which will reduce the opportunity to obtain maximum profits. Asset values may decrease due to the disclosure of sustainability reports and expenditures to carry out the company's sustainable activities. A company's financial performance is not guaranteed to improve by publishing a sustainability report.

The implementation of Sustainability Reporting disclosures in the social sphere becomes the company's responsibility towards stakeholders for its business operations in the wider community which supports stakeholder theory. Apart from that, the implementation of this disclosure also supports the legitimacy theory that underlies the company's social contract with the community that the sustainability and development of the company is in accordance with what has been provided to the community in and around the company (Ibáñez-Forés et al., 2023). Sustainability Reporting social aspects discuss how organizations or companies manage the impacts resulting from business processes on the social systems in which the company operates. Social responsibility activities and social expenditure carried out by companies are usually only a small portion of the company's total expenditure which is utilized or used as a company strategy to gain profits (Asuquo et al., 2018).

CONCLUSION

Based on the results of the hypothesis tests that have been carried out, the economic dimension has a significant and positive impact on the company's financial performance. Disclosure of information related to a company's economic performance, including accurate financial reports, analysis and projections, provides confidence to investors and creditors. This can result in increased funding, working capital and company operations. Disclosure of the Sustainability Report in the environmental dimension has a significant and negative impact on the company's financial performance. Although these disclosures reflect a company's responsibility to the environment and community, spending on environmentally friendly efforts can reduce profitability. This indicates that even though companies prioritize environmental aspects, the financial impact can be felt in the short term. Disclosure of the Sustainability Report in the social dimension does not have a significant impact on the company's financial performance. Although social efforts, such as implementing CSR and improving relations with stakeholders and the community, are important for maintaining a company's reputation, their impact on financial performance is not as visible. There is a trade-off between social efforts and costs that can reduce profitability. The results obtained from this research show that decision making regarding Sustainability Report disclosure must be done carefully. Companies need to consider the trade-off

between environmental and social responsibilities and their financial impact on financial performance. A deeper understanding of how investment in social and environmental aspects can affect image.

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