THE EFFECT OF SUSTAINABILITY REPORT DISCLOSURE COMPLIANCE ON THE COMPANY'S FINANCIAL PERFORMANCE

Amelia Rahmadhani Putri Amrigan, Masyhuri Hamidi*, Fajri Adrianto
Faculty of Economic and Business, Universitas Andalas
ameliaamrigan@gmail.com , masyhurihamidi@eb.unand.ac.id,
fajriadrianto@eb.unand.ac.id

ABSTRACT

The issue of the sustainability of a company today is very important. Where the company must think ahead to how the business carried out can be beneficial not only for internal but also external companies at this time and in the future. This study aims to determine the effect of compliance on sustainability reports disclosure (economic disclosure, environmental disclosure, and social disclosure) on financial performance as measured using Tobin's Q ratio. The sample in this study were all companies that received bronze to platinum ratings on ASRRAT for the 2018-2021 period and were listed on the stock exchange. The data used is secondary data obtained from the ASRRAT website and from each company's website. This study used panel data regression analysis; the Fixed Effect Model with the help of STATA 14.2. The results of this study are that economic disclosure has a negative effect and significance, environmental disclosure has a negative effect but no significance and social disclosure has a positive effect and significance.

Keywords: Sustainability report, Economic disclosure, Environmental disclosure, Social disclosure, Financial Performance

INTRODUCTION

Generating large profits is generally the main goal of a business. This can further intensify competition between companies. According to Latifah & Luhur (2017), the more competitive economic agents are to generate greater profits, the higher the development of resources. Gunawan & Mayangsari (2015), also revealed that companies seeking maximum profit explore uncontrolled natural resources and communities to meet stakeholder demands. This can cause global problems in terms of natural damage, climate change, global warming, social crises, and ultimately economic crises that can occur all over the world (Nor et al., 2016).

In a company, there are many stakeholders, namely creditors, investors, bondholders, employees, management, and others (Martynova & Renneboog, 2011). Each of these stakeholders has an interest in knowing the company's financial performance. In this company's financial performance, we can see how well a company is in generating revenue in managing the assets they have, liabilities, and interests of stakeholders and shareholders. There are many ways to measure financial performance, indicating a different business perspective. On of the ways used to measure the financial performance of a company is to use Tobins'Q indicating market perspective.

Arowoshegbe et al (2016) said that John Elkington in 1997 his book "Cannibals with Forks, the Triple Bottom Line of Twentieth Century Business" popularized the term triple bottom line. Where this concept tells the company that in order to grow sustainably apart from increasing company revenue (profit), the company is also responsible for protecting the earth (planet) and caring for humans (people) both employees and the community outside the company. Therefore, this concept shows that the disclosure of information by companies is not

only limited to one aspect of performance, but also all indicators of sustainability performance, namely economic, social and environmental performance.

So, When we take a deeper look at the business world today, we will see very significant changes to the activities carried out by companies in the world. In the past, companies were very focused on making as much profit as possible without paying attention to other things. But this is different from now when many companies have started to pay attention to other things. Not only financial problems or company profits but also by thinking about the sustainability of the company.

In the Brundtland report, the term sustainability was first defined. The meaning of sustainability is defined as a process of economic growth, environmental protection, and social equality. In the business world, sustainability refers to economic, environmental, social, and opportunity risks (Brundtland et al., 1987). The aim is that shareholders can obtain more comprehensive information to assess the performance, risks and, business projects, as well as the viability of a company. The Global Reporting Initiative (GRI) issues disclosure standards used by companies around the world as a reference for writing sustainability reports. Not only that, the World Business Council for Sustainable Development (1999) also stated that the Global Reporting Initiative Report is a standard in sustainability reporting that can be applied and widely accepted by companies in the world.

According to GRI, a sustainability report is a report that discloses company activities to internal and external parties as an organizational responsibility in realizing sustainable development goals. The sustainability report consists of three disclosures: 1) Economic disclosure concerning the organization's impact on the economic conditions of stakeholders and on the economic system at the local, national, and global levels. The economic aspects reported in the sustainability report are more on the company's contribution to the size of the economic system. 2) Environmental disclosure concerns the direct implications of company activities on ecosystems, both living and non-living. Disclosure of the environmental dimension in a sustainability report is considered important to increase the reputation and trust of stakeholders because by disclosing environmental performance, the company shows the company's existence and participation in dealing with environmental problems. 3) Social disclosure relates to the impact of the organization on the surrounding community and the risks faced by the company from other social institutions.

This study aims to examine the effect of sustainability report disclosure on a company financial performance. Financial performance is proxied by Tobin's Q ratio. Companies that report sustainability reports are predicted to have good financial performance. More specifically, there are three sustainability report disclosures that will be tested, namely economic disclosure, environmental disclosure, and social disclosure. Companies that comply in reporting sustainability reports are predicted to have high profitability and good stock performance.

METHOD

The research uses quantitative methods with the technique used for sampling this research is purposive sampling. Purposive sampling is a research sampling technique that is non-random and has special criteria. Therefore, not all companies participating in the Asia Sustainability Reporting Rating 2021 can be used as samples in this study.

When viewed based on the pattern of relationships, this is a type of research that tests hypotheses. Hypothesis testing is testing the relationship that is considered reasonable between several factors which are stated as testable statements (Sekaran & Bougie, 2016). By testing the hypothesis, it is believed that the problems contained in the research can be resolved.

In this study, researchers used secondary data obtained through empirical data from the official websites of each selected company and any information related to the study like https://ncsr.id/id/asia-sr-rating/ and https://id.investing.com/ to find out the stock price. According to Hasan (2002), secondary data is data obtained or collected by people who conduct research from existing sources. Meanwhile, Daniel (2002) defines secondary data as data that is available in various forms.

The sample used as the object of research this time is a company that has a bronze to a platinum rating in the Asia Sustainability Reporting Rating and reports a sustainability report for the 2017-2021 period and is listed on the Indonesia Stock Exchange. The technique used for sampling in this study was purposive sampling. Based on these criteria, a sample of 27 companies was obtained. Thus, the number of observations in this stemware 101 observations.

Table 1

Sample of the research

No.	Code	Company Name
1	ANJT.JK	PT Austindo Nusantara Jaya Tbk
2	BBRI.JK	PT Bank Rakyat Indonesia (Persero), Tbk.
3	BNII.JK	PT Bank Maybank Indonesia Tbk
4	BBNI.JK	PT Bank Negara Indonesia (Persero) Tbk
5	BJTM.JK	PT Bank Pembangunan Daerah Jawa Timur Tbk
6	INTP.JK	PT Indocement Tunggal Prakarsa Tbk.
7	ITMG.JK	PT Indo Tambangraya Megah Tbk
8	TINS.JK	PT TIMAH Tbk
9	UNTR.JK	PT United Tractors Tbk
10	INCO.JK	PT Vale Indonesia Tbk
11	BJBR.JK	PT BPD Jawa Barat & Banten, Tbk. (Bank BJB)
12	ABMM.JK	PT ABM Investama Tbk
13	BTPN.JK	PT Bank BTPN Tbk
14	PTBA.JK	PT Bukit Asam Tbk
15	POWR.JK	PT Cikarang Listrindo Tbk
16	PPRO.JK	PT PP Properti Tbk
17	WIKA.JK	PT WIJAYA KARYA (Persero) Tbk
18	PGAS.JK	PT Perusahaan Gas Negara Tbk
19	BTPS.JK	PT Bank BTPN Syariah Tbk
20	BUMI.JK	PT BUMI Resources Tbk.
21	EXCL.JK	PT XL Axiata Tbk
22	ASII.JK	PT Astra International Tbk
23	BNGA.JK	PT Bank CIMB Niaga Tbk

24	ELSA.JK	PT Elnusa Tbk
25	ANTM.JK	PT ANTAM Tbk
26	BBKP.JK	PT Bank Bukopin Tbk
27	GIAA.JK	PT Garuda Indonesia (Persero) Tbk

This research consists of 7 variables which are divided into 1 dependent variable, 3 independent variables, and 3 control variables. Table 2 explain all definition and measurement of research variables.

Table 2

Operational Definition and Measurement of Variables

Variables	Type	Description
Financial Performance	Dependent	Tobin's Q Ratio (EMV/EBV)
Economic Disclosure, EcD	Independent	The ratio of economic disclosures to the total disclosures that must be disclosed
Environmental Disclosure, EnD	Independent	The ratio of environmental disclosures to the total disclosures that must be disclosed
Social Disclosure, ScD	Independent	The ratio of social disclosures to the total disclosures that must be disclosed
Firm Age, FA	Control	Log n (total age of the company)
Firm Size, FS	Control	Log n (total assets of the company)
Firm Leverage, FL	Control	Debt to asset ratio from total debt divided by total assets

In this research used Panel Data Regression Analysis and to see the relationship between variables in this study used the application STATA 14.2 for windows. The formula formed for this research is as follows:

FP = α + β1EcD + β2EnD + β3ScD + β4FS + β5FA +β6FLit+ ε

Where:

FP	=	Financial	Performance
α	=		Constanta
EcD	=	Economic	Disclosure
EnD	=	Environmental	Disclosure
ScD	=	Social	Disclosure
FS	=	Firm	Size
FA	=	Firm	Age
FL	=	Firm	Leverage
$\beta 1 - \beta 6$	=	Regression	Coefficient
ε	=	Term Error	

The determination of the estimation model for this panel data regression analysis are Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). And to choose the most appropriate model for this regression, there are several tests that can be done, the Chow test, Hausman test, and Lagrange Multiplier. And for hypothesis testing will use 3 types of hypothesis testing namely the first T-test Apart from these criteria, the conclusion of the significance of each variable in the partial t-test can be known from the value of Prob > (t), provided that: if the value of $\alpha < 0.05$ then Ha is accepted. And if the value of $\alpha > 0.05$ then Ha is rejected. The second is F-test, if the simultaneous value is > 0.05 then the hypothesis cannot be accepted. But if the simultaneous value is < 0.05 then the hypothesis can be accepted. And the last $R2$ test, If the value $(R2) = 0$ or close to zero, it means that there is no relationship or small effect between the independent variable and the dependent variable.

The hypothesis of this study is as follows:

H1: Economic disclosure has a negative effect and is signed on the company's financial performance

H2: Environmental disclosure has a positive effect and significance on a company's financial performance

H3: Social disclosure has a positive effect and is signed on the company's financial performance

RESULTS AND DISCUSSION
Research Results

Descriptive statistics are part of statistics that investigates how to collect and present data with the aim of making it easier to understand. Table 3 below is the result of a descriptive analysis of this study which was obtained using STATA 14.2 for Windows. This table is a summary of the descriptive statistics of the variables contained in the study.

Table 3

Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
FP (Tobin's Q)	101	1.162707	0.3578555	0.4575	2.6644
EcD	101	0.6245743	0.1863107	0.2773	1
EnD	101	0.4890248	0.2286125	0	0.9014
ScD	101	0.5801663	0.1605075	0.2739	0.9608
FA	101	1.275737	0.120145	0.776	1.4469
FS	101	3.707819	0.0791281	3.5618	3.8961
FL	101	0.7568168	0.1988834	0.02	0.9805

Source: Results of Data Processing Using STATA 14.2 for Windows

The three independent variables in this study are Economic disclosure, Environmental disclosure, and Social disclosure, all of which are measured using the ratio of sustainability report disclosures to the total disclosures that must be disclosed contained in the sustainability reports of each of these companies. Then, for the dependent variable of this study is the

company's financial performance as measured using the company's Tobins Q during the study period. Not only that, this study is also equipped with three control variables to clarify the results of the study which consist of Firm age, Firm size, and Firm leverage.

Table 4

Data Panel Regression Result from Fixed Effect Model

FP (Tobin's Q)	Coefficient	Std. err.	t	P>|t|	[95% conf. interval]	
EcD	0.250773	0.3192289	0.79	0.435	-0.3862384	0.8877843
EnD	-0.4837238	0.1850316	-2.61	0.011	-0.8529487	-0.1144989
ScD	-0.1509863	0.386534	-0.39	0.697	-0.9223029	0.6203304
FA	-2.251767	2.182069	-1.03	0.306	-6.606018	2.102485
FS	-5.71989	3.90784	-1.46	0.148	-13.51786	2.078083
FL	0.2399305	0.3489943	0.69	0.494	-0.4564768	0.9363377
_cons	25.22962	13.86565	1.82	0.073	-2.438852	52.8981
Sigma u	0.64611993					
Sigma e	0.22881081					
rho	0.88856628					

Source: Results of Data Processing Using STATA 14.2 for Windows

Table 5

T-test Result

FP (Tobin's Q)	t	P>|t|
EcD	-2.43	0.017
EnD	-0.94	0.349
ScD	2.04	0.044
FA	-1.79	0.077
FS	1.22	0.224
FL	-1.06	0.292
_cons	-0.27	0.786

Source: Results of Data Processing Using STATA 14.2 for Windows

Based on Table 5 it can be seen that the economic disclosure variable has a significant negative effect on financial performance. The environmental disclosure variable has no significant negative effect on financial performance. And social disclosure has a significant positive effect on financial performance. Meanwhile, Firm age and firm leverage have no significant negative effect on financial performance. And Firm size has no significant positive effect on financial performance.

Table 6

F-test Result

F (6, 94) = 1.86
Prob > F = 0.0950

Based on Table 6 above, it can be seen that the value of Prob > F = 0.0950. The Alpha value of the research is 0.05. This means that the Prob > F value is greater than the Alpha value of the study. Thus, all independent variables, namely economic disclosure, environmental disclosure, and social disclosure, as well as control variables, namely firm age, firm size, and firm leverage, do not affect the dependent variable, namely financial performance simultaneously.

Table 7

R-squared Result

R-squared = 0.1064
Adj R-squared = 0.0493

Based on Table 7 it can be seen that this study has an R-squared value of 0.1064. This means that the dependent variable financial performance which is measured using Tobins Q can be explained by the independent variables – economic disclosure, environmental disclosure, social disclosure – as well as control variables – firm age, firm size, firm leverage – of 10.64%. Then the remaining 89.36% is explained by other variables outside the research.

DISCUSSION

The effect of Economic Disclosure Compliance on The Company's Financial Performance

The economic disclosure (EcD) variable in this research has a value of P>|t| is 0.017. In addition, economic disclosure has a negative coefficient value of -0.7550331. This means that economic disclosure has a negative and significant effect on the dependent variable of this study, namely financial performance as measured by Tobins Q. This is because the value of P>|t| owned by this variable is smaller than the Alpha value owned by the research, which is 0.05 and the variable coefficient is negative. So, the H1 is accepted.

This research has the same results as previous studies, namely Suwandi (2019), and Bukhori (2017) where the Sustainability Report economic dimension has a significant negative effect on financial performance as measured by the company's market performance. These results indicate that companies that disclose economic dimensions of sustainability reports cause financial performance as measured by Tobin's Q to experience a decline. According to Suwandi (2019), these results are somewhat confusing because the company's efforts to disclose the impact of macroeconomic changes should help investors assess the company's

prospects going forward. It is possible that the information on the economic dimension is not trusted by investors, so they carry out their own analysis in assessing the macroeconomic impact on the company's future prospects.

The effect of Environmental Disclosure Compliance on The Company's Financial Performance

The environmental disclosure (EnD) variable in this study has a value of P>|t| of 0.349 which is smaller than the Alpha value of 0.05 and a negative coefficient of -0.1836496. This means that environmental disclosure (EnD) has a negative and no significant effect on the dependent variable of this study, namely financial performance as measured by Tobins Q. Thus this explains that the higher the environmental disclosure owned by the company, the lower the financial performance provided by the company. So, the H2 is rejected.

This condition indicates that the company's ethical behavior in the form of social responsibility towards the surrounding environment has a negative impact and has no effect on improving financial performance. This result is certainly contrary to previous research, namely Bukhori (2017), Puspitandari & Septiani (2017), Saini & Singhania (2019) states in their research that the disclosure of environmental disclosure shows a significant positive effect on the company's financial performance because the disclosure of environmental performance is very vital to show the existence and participation of companies in dealing with environmental problems.

The effect of Social Disclosure Compliance on The Company's Financial Performance

Social disclosure has a value of P|t| of 0.044 which is smaller than the research Alpha value of 0.05. Then, social disclosure (ScD) has a positive coefficient value of 0.782028. This means that this variable has a positive and significant influence on the dependent variable. Thus this explains that the higher the social disclosure owned by the company, the higher the financial performance provided by the company. So, the H3 is accepted.

The results of this study are in accordance with the explanation of one of the theories used in this study, namely the legitimacy theory. This research is in accordance with previous researchers, namely Bukhori (2017), Puspitandari and Septiani (2017), and Saini and Sanghania (2018) stated that the disclosure of social performance aspects has a significant positive effect on financial performance in companies.

The effect of Firm Age on The Company's Financial Performance

Firm age (FA) is the age of the company as measured from the year the company was founded. The firm age in this study is measured using the ln formula (firm age). The t-test results for the firm age variable have a value of P|t| of 0.077. This means the value of P|t| greater than the value of Alpha research which is worth 0.05. Meanwhile, firm age has a negative coefficient value of -0.6636293. If the value of P|t| is greater than the Alpha value and has a negative coefficient, this means that firm age has a negative and no significant effect on the dependent variable.

A higher age is considered larger and more profitable. Based on Megawati (2019) Younger companies are usually weaker in the face of risk and as a result, can achieve high failure rates. This is due to limited resources, lack of experience with employees and external networks (Ahlstrom et al., 2008). Meanwhile, according to Stinchcombe (1965) companies with an older age have better resources and there are no limitations that can make companies take more risks so this can reduce their failure rate. This means that only a few companies that are sampled have firm ages higher than the average firm age of the companies that are sampled. In addition, this also means that the sample companies have a small firm age.

The effect of Firm Size on The Company's Financial Performance

Firm size (FS) is the size of the company which in this study is measured by the formula ln (total assets owned by the company). As for the value of P|t| from the firm size of 0.224. Meanwhile, this variable has a positive coefficient value of 0.769038. This means that this variable has a positive and no significant influence on the dependent variable in the research.

These results explain that the larger the firm size, the higher the financial performance provided by the company. The results of this study are in accordance with research conducted by Buallay (2019), which showed that the sustainability disclosure indicators tended to be higher with banks that had more assets. And also Desai et al (2022), said firm size has a positive impact on disclosure. It predicts that large firms are more expected to disclose data as compared to small firms.

The effect of Leverage on The Company's Financial Performance

The results of the t-test for firm leverage have a value of P|t| of 0.292. This means that the value is greater than the research Alpha of 0.05. Meanwhile, the coefficient value of firm leverage is -0.2365454. Thus, firm leverage has a negative and insignificant effect on the dependent variable of the study.

These results explain that the higher the level of debt owned by the company, the lower the financial performance provided by the company. Based on Buallay (2019) and (Bansal et al., 2021) state that high levels of leverage tend to have a negative impact on financial performance.

CONCLUSION

This study aims to look at the effect of compliance disclosure of economic, environmental, and social performance on the financial performance of companies in Indonesia. Based on the above objectives, this study uses quantitative analysis which is carried out on companies that get bronze to platinum ratings on the Asia Sustainability Reporting Rating for the 2017-2021 period as well as listing on the Indonesia Stock Exchange for the period. During this period, there were 27 companies that met the criteria for this research sample. Based on the results of panel data regression analysis, there are three research results which will be explained below:

The first research result, namely economic disclosure has a negative and significant effect on the dependent variable of this study, namely financial performance as measured by Tobins Q.

The second research result is that environmental disclosure has a negative and no significant effect on the dependent variable of this study, namely financial performance as measured by Tobins Q. This condition indicates that the company's ethical behavior in the form of social responsibility towards the surrounding environment has a negative impact and has no effect on improving financial performance.

The final research result is that social disclosure has a positive and significant effect on the dependent variable of this study, namely financial performance as measured by Tobins Q.

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