American Journal of Sciences and Engineering Research

E-ISSN -2348 – 703X, Volume 6, Issue 1, 2023

Impact of Sustainability Report Disclosure on Company Financial Performance

Dea Yesiana Setyaningrum [1], Shinta Permata Sari [2]

[1]*Universitas Muhammadiyah Surakarta, Indonesia*
[2]*Universitas Muhammadiyah Surakarta, Indonesia*
deayesiana@gmail.com [1], sps274@ums.ac.id [2*]
**Corresponding Author*

ABSTRACT: *Sustainability report is a non-financial report related to the social activities carried out by the company that consists of three dimensions which are the economic dimension, environmental dimension, and social dimension. The purpose of this study is to examine the effect of sustainability report disclosure which includes the economic, social, and environmental dimensions on the company's financial performance. Financial performance is measured by Net Profit Margin. This research is a quantitative study with a population in this study are companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on Indonesia Stock Exchange. The sample determination uses purposive sampling and gets 64 companies to meet the criteria. This study uses secondary data and the hypothesis is tests with multiple linear regression analysis. The results of this study indicate that the economic dimension and environmental dimension affect the company's financial performance, while the social dimension has no effect on the company's financial performance.*

Keywords: *Financial performance; sustainability report; economic dimension; environmental dimension; social dimension.*

I. INTRODUCTION

The company's main goal in general is to generate profits for the company, employees, and stakeholders. Companies use financial statements as a means of accountability to the owners of capital. The use of these financial statements results in excessive and uncontrolled exploitation of natural resources and society which can result in damage to the natural environment. If allowed to continue, it is thought that it may endanger both the sustainability of the ecosystem and human life (Sabrina & Lukman, 2019).

In recent years, environmental damage has become a big issue. This is caused by economic activities carried out in various parts of the world. One of the economic actors that are often the cause of environmental problems is the company (Tanjung & Wahyudi, 2019). The phenomena that occur is the background why companies must submit Social Responsibility Reports, including environmental damage caused by company operations such as in 2000 environmental damage that occurred in Papua by PT Freeport Indonesia and the Lapindo mud disaster in Sidoarjo 2006 which associated with the activities of PT Lapindo Brantas (Prabandari, 2022). Considering the phenomena that occurred before, raises public concerns about the risks arising from the company's operational activities, and that policies regarding social and environmental responsibility must be fulfilled by the company. Dynamic companies are concerned about the environment and social surroundings, not only concerned with financial interests but the benefit of stakeholders. Companies concerned with environmental and social interests to benefit in the future if carried out with full responsibility (Ariyani & Hartomo, 2018).

 Received-17-01-2023, Accepted- 26-01-2023

Implementation of sustainability reports in Indonesia is supported by many regulations such as Law No.23/1997 on environmental management and the rules issued by the Indonesia Stock Exchange regarding listing procedures and requirements as well as the financial statement standard Statement of Financial Accounting Standards (PSAK) No. 57 issued by the Indonesian Institute of Accountants (IAI) regarding social responsibility accounting regulations in Indonesia. Now many companies are starting to disclose their social and environmental information to the public because of these regulations. Disclosure of sustainability report practices will affect the company's financial performance which will provide an increase in company value due to the support obtained from internal and external stakeholders (KPMG, 2008; Irma & Lestari, 2021).

Companies are required to publish sustainability reports starting in 2019 based on POJK NO.51/POJK.03/2017. POJK NO.51/POJK.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Each company will be the subject to sanctions in the form of reprimands or written warnings if it does not publish a sustainability report. The disclosure of sustainability reports is not only the property of large companies or those already listed on the Indonesian stock exchange but all of them such as financial services institutions, issuers, and public companies. Social and environmental responsibility is a commitment to participate in sustainable economic development to improve the quality of life and environment that is beneficial, for the company, local community, and society in general. The sustainability report is something that can still be developed continuously which can provide a clearer picture to be able to measure, disclose, and make the company accountable for the company.

In the last two decades, there have been many sustainability reporting guidelines for use by companies, especially for multinational companies or Multinational Enterprises (MNEs). However, the most widely accepted sustainability reporting guidelines globally are the guidelines issued by The Global Reporting Initiative (GRI). Global Reporting Initiative is an independent international organization, headquartered in the Netherlands that has pioneered SR reporting since 1997. GRI wants to help companies and governments in every country respond to sustainability issues such as social welfare and human rights (Febriyanti, 2021). Global Reporting Initiative (GRI) defines sustainability report as a practice of measuring and disclosing company activity, as a form of responsibility to internal and external stakeholders regarding organizational performance in realizing sustainable development goals. The goal of sustainable development is an effort to meet current needs without reducing the ability of future generations to meet their needs (Mulpiani, 2019).

A report published by a company or organization on the economic, environmental, and social impacts of daily activities is known as sustainability reporting. The sustainability report also describes an organization's values and governance models, as well as the ability to connect between strategy and commitment to the global economy (Dewi & Maulana, 2022). The publication of sustainability reports is intend to introduce how companies integrate good economic, environmental, and social aspects to the public. The dimensions of disclosure in the sustainability report are broadly divided into three dimensions, namely the economic dimension (EC), environmental dimension (EN), and social dimension (SO) (Japlim et al., 2021).

Research on the disclosure of sustainability reports has been carried out by previous researchers such as those conducted by Irma & Lestari (2021) on the effect of sustainability reports on company financial performance, stating that the disclosure of sustainability reports in the economic dimension (EC) affects the company's financial performance while environmental dimension (EN) and social dimension (SO) have no effect on the company's financial performance. Meanwhile, research conducted by Mutmainnah & Asiah (2021) on the effect of sustainability report disclosure on financial performance in banking companies states that only the economic dimension has a significant positive effect on the company's financial performance. The environmental and social dimensions have no effect on the financial performance of banking companies, while the results of economic, environmental, and social dimension variables as measured by Return on Equity (ROE) have a significant positive effect on the company's financial performance.

Based on existing phenomena, it can be concluded that sustainability reports are an increasingly popular issue in recent years to be studied by researchers and because of the research gap between sustainability report's disclosure on a company's financial performance, this study tries to re-examine this influence. This study uses Net Profit Margin (NPM) proxy in measuring financial performance. This study uses all companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on the Indonesia Stock Exchange. The Asia Sustainability Reporting Rating (ASRRAT) is held by the National Center for Sustainability Reporting (NCSR) as recognition and appreciation to companies that have made sustainability reports.

II. THEORITICAL BACKGROUND AND HYPOTHESES

2.1. Financial Performance

Financial performance is defined as an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly (Angelina, 2013; Rohmah et al., 2019). Financial performance has an important role for the company, namely to fulfill or measure the level of resource use of each part, production and to determine the degree of profit that can be achieved by the company concerned, assess and measure the work of each individual part that has been given authority and responsibility. Benchmark for the cost of operational activities that have been carried out by the company and determining new policies or procedures to achieve company goals (Munawir, 2010; Suhardiyah et al., 2018).

Financial performance is a description of the company's financial condition during the period concerning raising and fund distribution aspects, as measured by capital coverage, liquidity, and profitability indicators. Financial performance can be reflected through the analysis of the financial ratios of a company, one of the measurements of financial performance is profitability. Profitability is the most important thing in a company (Clarissa & Rasmini, 2018).

The results of measuring work performance can be used as a tool to evaluate management performance so far, whether they have worked effectively or not. Failure or success can be used as reference material for future profit planning, well as the possibility of replacing new management, especially after the old management fails. Therefore, this profitability ratio is often referred to as one of the management performance tools (Kasmir, 2008: 197; Winarno, 2019). This study uses the Net Profit Margin proxy in measuring financial performance. This ratio is significant for operations managers because it reflects their sales pricing strategy and ability to control operating expenses. Using Net Profit Margin in this study because the more significant the Net Profit Margin value, the more productive the company's performance will be. This will increase investor confidence to invest in the company (Choiriya et al., 2020).

2.2. Sustainability Report

Sustainability report according to the Global Reporting Initiative (2019) is a report published by a company about the economic, environmental, and social impacts caused by its daily activities. It presents the organization's value and governance model and shows the link between its strategy and commitment to a sustainable global economy (Putra & Subroto, 2022).

In sustainability report research, stakeholder theory is one of the main theories that is widely used to underlie research on sustainability report. Stakeholder theory is a theory that states that the success of a company depend on its ability to balance the various interests of stakeholders. If it can, then the company will gain continued support and enjoy growth in market share, sales, and profits. From the perspective of stakeholder theory, the community and environment are the company's core stakeholders that must be considered (Lako, 2011: 5; Andika & Anisah, 2022).

The company operates following applicable norms, rules, and regulations. As stated in the legitimacy theory put forward by Dowling, J. & Pfeffer (1975). Legitimacy theory can emphasize that companies have efforts to ensure that the industrial activities of their companies are still in the circle and norms that exist in the environment where the company stands, and the surrounding community receives from the company's industrial activities legally without being harmed (Eriyanti & Fitri, 2022).

2.3. Economic Dimension

The economic dimension based on the Global Reporting Initiative (GRI) is related to the impact of a company on economic conditions for stakeholders, and the economic system at the local, national, and global levels. Disclosure of the economic dimension will increase the transparency of the company which can improve the company's image. Through the disclosure of sustainability reports with economic aspects, companies will be encouraged to produce products that care about the environment and society (Anna & Dwi, 2019). The products of the company can be well received by the community and can increase company value followed by increased company profitability. The more items of disclosure of the economic dimension of company, the higher the profitability obtained by the company. Irma & Lestari's (2021) research shows the results that the economic dimension (EC) affects the company's financial performance. Therefore, the following hypothesis can be formulated:

H_1 : Disclosure of economic dimension affects the company's financial performance.

2.4. Environmental Dimension

The environmental dimension relates to the company's impact on natural systems related to air, land, water, and ecosystems. And disclosure of the environmental dimension is very important to show the company’s participation in dealing with environmental issues as a form of moral corporate responsibility for the environment in which the company operates following what is stated in the legitimacy theory. With this disclosure, the company gets certainty that the company has operated following applicable norms, rules, and regulations. And the companies will get a good image and predicate of the public which will be an added value for the company. The higher added value of the company, the more stakeholders trust, and the company will have a good relationship with its stakeholders (Anna & Dwi, 2019). It can be concluded that more environmental dimension disclosure items carried out by the company, the higher the company's profitability. Mulpiani's (2019) research shows the results that the environmental dimension has a significant positive effect on financial performance. Therefore, the following hypothesis can be formulated:

H_2 : Disclosure of environmental dimension affects the company's financial performance.

2.5. Social Dimension

Global Reporting Initiative identifies that the social dimension encapsulates labor practices, human rights, community, and product responsibility. Aspects of the social dimension have an impact on the social system that operates in the organization. Disclosure of the social dimension and concern for social issues can also increase employee morale to work more earnestly to realize company goals, besides improving the company's image for stakeholders. Concern for the social environment has a positive impact on the company's future prospects (Suwandi, 2019). Companies that disclose social responsibility to stakeholders not can only increase the company's average share price, but also can improve the welfare and loyalty of employees, and reduce employee turnover rates so that company productivity can increase. It concludes that the more items of disclosure of the social dimension, the higher the company's profitability (Septiana et al., 2019). Sakiyah’s et al. (2020) research shows the results that the social dimension has a significant positive effect on financial performance. Meanwhile, Sari & Andreas's (2019) research shows that the social dimension has no effect on the company's financial performance. Therefore, the following hypothesis can be formulated:

H_3 : Disclosure of social dimension affects the company's financial performance.

III. METHODS

The type of research is quantitative research. The population in this study are companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on the Indonesia Stock Exchange. The data uses in this study is secondary data, in the form of company sustainability reports and annual reports of companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on the Indonesia Stock Exchange. Data in this study are obtained from the official website the National Center for Sustainability Reporting (NCSR) (www.ncsr-id.org), the official website of the Indonesia Stock Exchange (www.idx.co.id), and the official website of each company. The hypothesis in this study is tested using multiple linear regression analysis. Sample selection in this study used a purposive sampling method. Based on the results of the sample determination process, the number of research samples by 64 companies. The criteria uses for sample selection in this study are as follows:

1. Companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on Indonesia Stock Exchange.
2. Companies that publish sustainability reports and can be accessed through the company's official website.
3. Companies that publish annual reports for four consecutive years during the 2018-2021 period and can be accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) or the company's official website.
4. Companies that experienced profits during the 2018-2021 period.
5. Companies that publish annual reports during the 2018-2021 period with variables needed in the study.

Disclosure of sustainability reports using the Global Reporting Initiative GRI-G4 index. Indicators in GRI consist of three dimensions, namely the economic, environmental, and social dimensions. There are a total of 91 indicators consisting of nine economic indicators, 34 environmental indicators, and 48 social indicators. This study uses measurements of independent and dependent variables as follows:

Table 1. Measurement of Operational

Variable	Indicator	Source
Financial Performance (Net Profit Margin)	NPM = $\frac{Net\ Profit}{Net\ Sales}$	Winarno (2019)
Economic Dimension	EcDI = $\frac{n\ (number\ of\ items\ disclosed)}{k\ (expected\ number\ of\ items\ disclosed)}$	Febriyanti (2021)
Environmental Dimension	EnDI = $\frac{n\ (number\ of\ items\ disclosed)}{k\ (expected\ number\ of\ items\ disclosed)}$	Febriyanti (2021)
Social Dimension	SoDI = $\frac{n\ (number\ of\ items\ disclosed)}{k\ (expected\ number\ of\ items\ disclosed)}$	Febriyanti (2021)

Source: Data process, 2022

IV. RESULT AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Analysis Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	64	0.006	0.275	0.12192	0.067811
Economic Dimension	64	0.111	0.889	0.51391	0.219328
Environmental Dimension	64	0.118	0.794	0.40902	0.160065
Social Dimension	64	0.167	0.771	0.36827	0.105703
Valid N (listwise)	64				

Source: Data process, 2022

From the results of data processing using descriptive statistical analysis, the value of the company's financial performance is between 6% - 27.5% with a mean of 12.19%. It can be interpreted that the mean ability of the 64 companies sampled to generate profits of 12.19%. Meanwhile, the economic dimension showed a value between 11.1% - 88.9% with a mean value of 51.39%. It can be interpreted that the mean company sampled revealed economic dimension index in the sustainability report as much as 51.39% of the total nine indicators of economic dimension. Furthermore, the environmental dimension showed a value between 11.8% - 79.4% with a mean value of 40.90%. It can be interpreted that the mean company sampled revealed the environmental dimension index in the sustainability report as much as 40.9% of the total 34 environmental dimension indicators. The social dimension showed a value between 16.7% - 77.1% with a mean value of 36.82%. It means that the mean company sampled revealed the social dimension index in the sustainability report as much as 36.82% of the total 48 social dimension indicators.

Multiple Linear Regression Analysis

Table 3. Multiple Linear Regression Analysis Results

Variable	Regression Coefficient	t-value	Sig.	Description
(Constant)	0.128	4.407	0.000	
Economic Dimension	0.183	4.199	0.000*	H_1 accepted
Environmental Dimension	-0.141	-2.561	0.013*	H_2 accepted
Social Dimension	-0.116	-1.313	0.194	H_3 rejected
Adjusted R^2	0.207			
Sig. F	0.001^b			

Source: Data process, 2022
*Significance at 0.05

The regression equation model of the three independent variables developed is as follows:

$$Y = 0.128 + 0.183EC - 0.141EN - 0.116SO + e$$

Based on the test results, the Sig. F value of $0.001^b < 0.05$, can be concluded that the regression equation in this study is a fit model. The coefficient of determination (Adjusted R^2) is 0.207 or 20.7%, which means that economic dimension, environmental dimension, and social dimension can explain the company's financial performance by 20.7% meanwhile the remaining 79.3% is explained by other variables outside the regression equation.

The results show that the disclosure of sustainability reports from the economic dimension affects on company's financial performance. It is evidenced by the significance value of (0.000 < 0.05), and H_1 is accepted. It shows that by disclosing the economic dimension, clarity to stakeholders regarding the economic impact of company's the organizational activities will be more transparent to foster stakeholder confidence in investing. The results of this study support Irma & Lestari's (2021) research that the disclosure of the economic dimension sustainability report (EC) affects the company's financial performance.

The results show that the disclosure of sustainability reports from the environmental dimension affects on company's financial performance. It is evidenced by the significance value of (0.013 < 0.05), and H_2 is accepted. Stakeholders can find out the performance of companies that care about the environment and can provide a positive response by providing funding for the company with the environmental dimension disclosed, its financial performance will be due to revenue generation and cost efficiency which will encourage company profitability. The results of this study support Mulpiani's (2019) research that the environmental dimension has a significant positive effect on financial performance.

The results show that the disclosure of sustainability reports from the social dimension had no effect on financial performance. It is evidenced by the significance value of (0.194 > 0.05), and H_3 is rejected. This proves that social performance in sustainability reports cannot make the company's financial performance better. This is because investors generally see companies only from total assets and profits earned. Stakeholders do not consider it important what the company has done on social issues and does not influence decision-making. The results of this study don't support Sakiyah's et al. (2020) research which states that the social dimension has a significant positive effect on financial performance. However, supporting the research of Sari & Andreas (2019), the social dimension has no effect on the company's financial performance.

V. CONCLUSION

The results of this study indicate that of the three dimensions in the sustainability report, the economic dimension and environmental dimension affect on company's financial performance, while the social dimension does not affect the financial performance of companies included in the Asia Sustainability Reporting Rating (ASRRAT) 2018-2021 period and listed on Indonesia Stock Exchange. The use of Net Profit Margin (NPM) to measure financial performance during the Covid-19 pandemic does not have a good effect on the social dimension of financial performance in terms of sales and company profits received by stakeholders. In general, stakeholders only see assets and profits earned. Do not pay attention and consider it important to disclosure and what the company does in dealing with social problems. In future research is expected to use other financial ratios to measure financial performance, add variables, and research samples.

VI. REFERENCES

1. Andika, Y. B., & Anisah, N. (2022). The Effect of Sustainability Report Disclosure on the Financial Performance of Food and Beverage Companies. *Journal Stiedewantara SENMAKOMBIS: National Seminar for Economics and Business Students*, *6(1)*, 1-12.
2. Anna, Y. D., & Dwi. R.T., D. R. D. (2019). Sustainability Reporting: Analysis of Financial Performance and Firm Value. *ASET Journal (Accounting Research)*, *11(2)*, 238-255.
3. Ariyani, A. P., & Hartomo, O. D. (2018). Analysis Of Key Factors Affecting The Reporting Disclosure Indexes Of Sustainability Reporting In Indonesia. *International Journal of Business, Economics and Law*, *16(1)*, 15-25.
4. Choiriya, C., Fatimah, F., Agustina, S., & Ulfa, F. A. (2020). The Effect of Return on Assets, Return on Equity, Net Profit Margin, Earning per Share, and Operating Profit Margin on Stock Prices of Banking Companies In Indonesia Stock Exchange. *International Journal of Finance Research*, *1(2)*, 103-123.
5. Clarissa, S. V., & Rasmini, N. K. (2018). The Effect of Sustainability Report on Financial Performance with Good Corporate Governance Quality as a Moderating Variable. *International Journal of Sciences: Basic and Applied Research (IJSBAR)*, *40(2)*, 139-149.
6. Dewi, I. P., & Maulana, H. (2022). The Mediation Role of Sustainability Reporting Disclosure on Financial Performance and Firm Value. *The International Journal of Business Management and Technology*, *6(4)*, 192-204.
7. Dowling, J. and Pfeffer, J. (1975). Organizational Legitimacy: Social Values And Organizational Behavior. *Pacific Sociological Journal Review*, *Vol. 18*, Page. 122-136.
8. Eriyanti, Y., & Fitri, A. (2022). The Effect of Disclosure of Sustainability Reporting Based on GRI Standards on Company Performance (Study of Non-Financial Companies Listed on the SRI-KEHATI Index 2017-2019). *Trisakti Accounting Journal*, *9(1)*, 145-154.
9. Febriyanti, G. A. (2021). The Effect of Sustainability Reporting on Firm Value with Leverage as a Moderating Variable. *Journal of Accounting and Tax*, *22 (01)*, 366-378.
10. Financial Services Authority of Indonesia Goverment (OJK). 2017. Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies.
11. Irma, S., & Lestari, N. (2021). The Effect of Sustainability Report on Company Financial Performance. *Journal of Applied Managerial Accounting*, *5(2)*, 34-44.
12. Japlim, R. Y., Nirmala, A., & Meilasari, F. (2021). The Effect of Sustainability Report Disclosure on the Financial Performance of Indonesian Mining Companies. *JeLAST: Journal of PWK, Marine, Civil, Mining*, *8(2)*, 1-6.
13. Mulpiani, W. (2019). The Effect of Sustainability Report Disclosure on the Performance of Public Companies in Indonesia. *Accuracy: Journal of Accounting and Financial Studies*, *2(2)*, 77-90.
14. Mutmainnah, & Asiah, A. N. (2021). The Effect of Sustainability Report Disclosure on Financial Performance in Banking Companies. *Scientific Journal of Business and Finance*, *10(2)*, 54-67.
15. Prabandari, A. I., (2022). News. Retrieved from Merdeka.com: https://www.merdeka.com/jateng/penyebab-lumpur-lapindo-hingga-dampaknya-bagi-masyarakat-perlu-diketahui-kln.html, accessed November 28, 2022.
16. Putra, Y. P., & Subroto, T. A. (2022). The Effect of Sustainability Report Disclosure on Company Financial Performance. *Journal of Ekombis Review: Scientific Journal of Economics and Business*, *10(2)*, 1327 - 1338.
17. Rohmah, K. L., Adiputra, A. K., & Kurniawati, W. (2019). The Effect of Sustainability Report Disclosure on Company Financial Performance. *Proceedings of the National Seminar on Multidisciplinary Sciences*, *1(2)*, 147-159.

18. Sabrina, & Lukman, H. (2019). The Effect of Sustainability Report on the Financial Performance of Banking Companies. *Journal of Multiparadigm Accounting*, *1(2)*, 477-486.
19. Sakiyah, D. E., Salim, M. A., & Priyono, A. A. (2020). The Effect of Sustainability Report Disclosure on Financial Performance in Banking Companies Listed on the IDX 2016-2018. *Scientific Journal of Management Research*, *9(10)*, 68-85.
20. Sari, I. A. P., & Andreas, H. H. (2019). The Effect of Sustainability Reporting Disclosure on Corporate Finance in Indonesia. *International Journal of Social Science and Business*, *3(3)*, 206-214.
21. Septiana, S., Setyobakti, M. H., & Liyundira, F. S. (2019). The Effect of Sustainability Report on the Financial Performance of Banking Sector Companies Listed on the Indonesia Stock Exchange (BEI) in 2013-2016. *Progress Conference*, *2(1)*, 9-24.
22. Suhardiyah, M., Khotimah, K., & Subakir. (2018). The Effect of Sustainability Report Disclosure on the Financial Performance of Mining Companies Listed on the Indonesia Stock Exchange in 2011-2015. *Economic Magazine*, *23(1)*, 85-94.
23. Suwandi, M. (2019). The Effect of Sustainability Report Disclosure on Market Performance. *Journal of Business Accounting*, *17(1)*, 22-29.
24. Tanjung, P. R. S., & Wahyudi, S. M. (2019). Analysis the Effect Disclosure of Sustainability Report, Economic Value Added and Other Fundamental Factors of Companies on Company Value. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *9(2)*, 237-249.
25. Winarno, S. H. (2019). Analysis of NPM, ROA, and ROE in Measuring Financial Performance. *Journal of STEI Economic*, *28(02)*, 254-266.