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Effect of Financial performance, Company Size, and Capital Structure on Sustainability Report Disclosures (Empirical Study of Financial Companies listed on the IDX in 2019-2021)

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ABSTRACT: *This study intends to investigate the impact company size, capital structure and financial performance as shown by profitability and liquidity ration on the disclosure of sustainability reports. Quantitative research techniques are used in this field on study. The study's focus is on financial firms that will be listed on the Indonesia Stock Exchange (IDX) 2019 until 2021. Purposive sampling was utilized to gather the sample for this study. 20 companies were gathered based on preset criteria, bringing the total number of observations in this study to 60. Statistical Product and Service Solutions (SPSS) version 23 is used to do the data analysis using multiple linear regression. According to the study's findings, disclosures in sustainability reports are nor significantly impacted by financial performance as determined by profitability as proxied by ROA. The disclosure of the sustainability report in unaffected by liquidity as measured by the Current Ratio (CR). The disclosure of the sustainability reports is significantly impacted by company size. The disclosure of the sustainability report is unaffected significantly by the capital structure represented by DER.*

Keywords: *Financial Performance; Company Size; Capital Structure; Sustainability Report.*

I. INTRODUCTION

Climate change and sustainability are still hotly contested issues. It's intriguing because this subject has recently received a lot of attention. A company's primary objective is typically to make the most profit possible. Yet, businesses and organizations shouldn't be focused on making a profit. It's also important to take into account the demands for sustainability and balance on both an environmental and social level. Future viability of the business depends on whether it can effectively contribute to resolving these issues, has acceptable financial, environmental, and social performance (Nofianto and Agustina, 2014). Also, there have been numerous instances of corporate irresponsibility in this area.A sustainability report is required to include information on businesses that are concerned with environmental issues.

According to its definition, sustainability reporting is a process that aids businesses in setting objectives, assessing performance, and promoting change in the direction of a sustainable global economy. It does this by balancing long-term profitability with social responsibility and environmental protection.

A situation has arisen that has put the company's survival in danger because of financial issues and the company's social obligation to society and the environment. Forest and land fires are one of the environmental harm phenomena in 2019. In Indonesia, the haze problem and land forest fires (karhutla) are largely caused by the banking industry. The business is financed by the Japanese behemoths Mizuho Financial Group and

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Mitsubishi UFJ Financial Group as well as Bank Indonesia (BRI), Bank Negara Indonesia (BNI), and (tuk.or.id). Since the Paris Climate Accord was signed, the forest has been classified as "endangered.". These banks are assisting businesses who are unable to put an end to the forest fire disaster in Indonesia's oil palm and pulp plantations, according to forestandfinance.org. In this instance, the corporation is conscious of its actions that are socially and environmentally responsible and reveals them in a sustainability report, also known as a sustainability report.

In 2019, just 54 issuers have released sustainability reports. However as of the first week of September 2021, only about 144 businesses—mostly issuers—had submitted sustainability reports. This holds true for both those who voluntarily created and released a sustainability report in the past as well as those who have received obligations.

Yet, some businesses still haven't released their sustainability reports. The absence of sustainability reports suggests that the corporation is influenced by outside forces regarding the disclosure of sustainability reports. The capital structure element is one of them. The ratio of the company's debt financing is the capital structure. More external money will be necessary to raise the financial requirements for the ongoing company growth process because organizations undertaking advanced business development require considerable sums of capital (Wulandari et al., 2021).

The Influence of Financial Performance, Company Size, and Capital Structure on Disclosure of Sustainability Reports (Empirical Studies on Financial Companies Listed on the IDX in 2019–2021)) is a study that encourages researchers to investigate the variables that affect companies' disclosure of sustainability reports. Using the previous reasoning, the following research problem formulations can be drawn:

1. Does profitability have an impact on the sustainability report disclosure?
2. Does liquidity have an impact on the sustainability report disclosure?
3. Does company size have an impact on the sustainability report disclosure?
4. Does capital structure have an impact on the sustainability report disclosure?

II. MATERIAL AND METHODS

2.1. Stakeholder Theory

Stakeholder theory, according to Fatchan and Trisnawati (2018), describes how corporate leadership reacts to or manages stakeholder expectations. According to the stakeholder hypothesis, business leadership must maintain positive relationships with stakeholders by meeting and managing their expectations (Nofriyanti, 2020).

2.2. Legitimacy Theory

Legitimacy theory, according to Chairi and Ghozali (2007), is a theory based on social contracts made between businesses and the communities in which they operate and absorb resources from the economy. It outlines both implicit and overt social expectations for how businesses should act in the future in order to thrive.

2.3. Sustainability Report

A sustainability report is a document published by a company or organization that details the economic, environmental, and social effects of its daily operations, according to GRI. The organization's principles and governance model are also presented in the sustainability report, demonstrating the connection between its strategy and dedication to a sustainable global economy. Organizations may better set goals and handle change when they use sustainability reports to measure, comprehend, and communicate their economic, environmental, social, and governance performance.

2.4. Financial Performance

According to Fahmi (2017), an examination of financial performance is done to determine the degree to which a company has operated in accordance with its financial practice norms. Financial performance is the outcome or accomplishment that corporate management achieves by efficiently managing the company's assets over a predetermined period of time (Rudianto, 2013). Financial performance, on the other hand, is the degree of accomplishment attained by a corporation in producing good results in financial management, according to Sanjaya Surya (2018). Profitability and liquidity are the financial performance metrics considered in this investigation.

2.4.1. Profitability

The capacity of a business to produce a return on sales, total assets, and capital is known as profitability. It is crucial to understand a company's profitability since it may be used to gauge how effectively its resources and capabilities are being utilised. Profitability can also be used to assess whether a company's revenue can outpace its outgoing expenses. More profitable operations equate to more effective management of assets. The ROA (Return On Assets) calculation was employed in this study to calculate profitability.

2.4.2. Liquidity

A ratio called liquidity is used to assess a company's capacity to pay short-term debts to creditors. This unquestionably demonstrates the capacity of a reliable business to develop a positive image that is closely related to the business (Safitri and Saifudin, 2019).Liquidity was assessed in this study using the CR (Current Ratio) formula. The company's capacity to repay its debt at maturity is known as CR.

2.5. Company Size

Andreas et al. (2015) (in Kelvin et al., 2019) claim that a company's size influences its capacity to endure the effects of the many circumstances it encounters. The total assets show the scope of the research in this study (assets). Assets are prospective economic gains that can be acquired in the future or held by certain entities as a result of past transactions or occurrences, according to Kieso et al. (2008).

2.6. Capital Structure

A corporation's capital structure, according to (Wulandari et al., 2021), is a particular mix of equity and debt that a company utilizes to finance its activities. To expand, a business needs finance. Riza (2017) claims that the corporation communicates its responsibilities to stakeholders through the reports it publishes. DER was used to measure this investigation.

Effect of Profitability on disclosure of Sustainability Report

Profitability can, according to Sofa & Respati (2020) be used to financially explain the effectiveness of a company's operating performance. Investors and creditors are drawn to businesses with high profitability because it demonstrates sound financial management. With the publishing of sustainability reports and the theory of stakeholders, profitability (stakeholders). In other words, strong profitability results in good business financial performance, and good financial performance increases stakeholder trust by demonstrating the organization's strength (Nadiya et al., 2021).

H1: Profitability has an impact on how the sustainability report is disclosed.

Effect of Liquidity on Disclosure of Sustainability Report

A company's liquidity can be understood as its capacity to meet its short-term financial obligations on schedule. A business that has a high degree of liquidity is better able to meet its short-term obligations on schedule. The theory of stakeholders that high liquidity signals a company's financial situation and ability to pay its commitments can be linked to liquidity in the disclosure of sustainability reports (Nadiya et al. 2021).

H2: The disclosure of the sustainability report is impacted by liquidity.

Effect of Company Size on Sustainability Report Disclosure

According to total assets, market capitalization, the number of employees, etc., a company's size is the total assets it has (Septiani et al. 2018). According to the legitimacy theory, which holds that businesses with significant assets are required to exercise social responsibility, the size of the corporation that discloses its sustainability report is related to this notion.

H3: Disclosure of sustainability reports is influenced by the size of the company.

Effect of Capital Structure on Sustainability Report Disclosure

Leverage, according to Harahap (2013), is a ratio that illustrates the link between a company's liabilities and equity. It can show how much of a company's funding comes from creditor loans and how much of a company's potential is represented by equity. Companies will attempt to disclose their earnings in a way that maintains profits more frequently as leverage increases. This is due to the fact that big profits show the company's sound financial standing and may induce it to ask its shareholders for financing.

H4: Capital structure has an impact on how sustainability reports are disclosed.

III. RESULT

For the 2019–2021 timeframe, corporations listed on the Indonesia Stock Exchange's annual reports and sustainability reports served as the secondary data for this study's quantitative methodology. Purposive sampling is a sampling technique. 20 businesses that fit these criteria were obtained based on the supplied parameters.

Table 1: Results of Research Sample Selection

No	Criteria Sample	Amount
1	Financial companies listed on the IDX in 2019-2021	105
2	Businesses that don't release annual reports 2019 until 2021	(14)
3	Businesses that don't release sustainability reports 2019 until 2021	(71)
Sampel study		20
Year of Observation		3
Total Sample Years of Observation in Number		60

Source: Processed data, 2023

The sustainability report is the study's dependent variable; its independent factors include profitability, liquidity, firm size, and capital structure. The meaning of each variable shown in table 2 is as follows.

Table 2. Definitions and Indicator Variable Study

Dependent Variable	**Indicators**	**References**
Sustainability Report	SRDI = $\frac{jumlah\ yang\ diungkapkan}{89}$	Globalreporting.org
Variable Independet		
Profitability	ROA = $\frac{Laba\ Setelah\ Pajak}{Jumlah\ Aset}$	Oktaviani & Amanah (2019)
Liquidity	Current Ratio = $\frac{Aset\ Lancar}{Liabilitas\ Jangka\ Pendek}$	Fatchan & Trisnawati (2018)
Company Size	SIZE = $Ln\ (Total\ Aset)$	Devi Istiani Roviqoh (2021)

Capital Structure	DER = $\frac{Jumlah\ Liabilitas}{Jumlah\ Ekuitas}$	Aini & Subarjo (2018)

By the use of secondary data from annual reports and sustainability reports for financial companies listed on the Indonesia Stock Exchange between 2019 and 2021, a quantitative approach is used in this study. Descriptive statistics, the traditional assumption test, and multiple linear regression analysis using the SPSS 23 program were employed in the data analysis for this study.

IV. DISCUSSION

The frequency distribution, maximum, minimum, average (mean), and standard deviation of the variables in this study are described and summarized using descriptive statistics (Oktavia & Amanah, 2019). The maximum, minimum, mean, and standard deviation figures based on SPSS version 23 processed data can be used to identify the profitability, liquidity, company size, capital structure, and sustainability report.

Tabel 3. Descriptive Statistical Result

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PROFITABILITAS	60	-,041	,091	,01313	,021050
LIKUIDITAS	60	,017	253,284	21,20963	44,991228
UKURAN PERUSAHAAN	60	28,945	35,084	32,42457	1,692556
STRUKTUR MODAL	60	,358	16,079	5,60648	3,319536
SUSTAINABILITY REPORT	60	,045	,494	,22713	,126020
Valid N (listwise)	60				

Source: Processed data, 2023

Classis assumption test

The traditional assumption test is a technique for figuring out how the regression model's study variables relate to one another. The Kolmogrov-Smirnov test (KS), which was used to determine the normality of the data, revealed an Asymp. Sig. (2-tailed) value of 0,200. It can be inferred that the data is normally distributed because the Asymp. Sig. (2-tailed) is greater than 0,05. Then the multicollinearity test concludes that multicollinearity does not occur or is declared to have passed the multicollinearity test if the tolerance value of all variables is greater than 0,10 and the VIF value is less than 10. The autocorrelation test using the Durbin Watson test value yielded a value of 1,348. It can be concluded that there is no autocorrelation or that the autocorrelation test is passed because the DW value is between -2 and +2. The heteroscedasticity test then revealed a significant value for each variable above 0.05, indicating that there was either no heteroscedasticity or that the test was passed. The F test is used to assess whether the independent factors have an impact on the dependent variable simultaneously. a significance value of 0, meaning that the four independent variables have no effect on the dependent variable because the significance value is less than 0.05. Determine how the research model affects the dependent variable using the coefficient of determination (R^2). 0,294 is the corrected R Square value. This indicates that the factors of profitability, liquidity, company size, and capital structure can account for 29.4% of the disclosure of sustainability reports. While other factors that were not looked at in this study account for the remaining 70.6%.

Tabel 4. Linear Regression Analysis

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	-,939	,285		-3,294	,002
	PROFITABILITAS	,686	,794	,115	,864	,391
	LIKUIDITAS	,000	,000	,057	,471	,639
	UKURAN PERUSAHAAN	,034	,009	,458	3,690	,001
	STRUKTUR MODAL	,009	,005	,225	1,630	,109

a. Dependent Variable: SUSTAINABILITY REPORT

Source: SPSS Output, 2023

Table 5 contains the findings of the research that tested the theory, and it reads as follows:

Tabel 5. Summary hypothesis researcher

	Hypothesis	t	Sig.	Information
1	Profitability has no effect on the disclosure of the sustainability report.	0,864	0,391	H1 Rejected
2	Liquidity has no effect on sustainability report disclosure.	0,471	0,639	H2 Rejected
3	Company size has an effect on the disclosure of the sustainability report.	3,690	0,001	H3 Accepted
4	Capital structure has no effect on sustainability report disclosure.	1,630	0,109	H4 Rejected

Profitability has on effect on the disclosure of the sustainability report

According to the first hypothesis, disclosure in sustainability reports is not significantly impacted by profitability. These findings suggest that the disclosure of a sustainability report is unaffected by profitability levels either high or low. This is due to management's inability to run the business effectively, which prevents profits from growing. The likelihood of a corporation safeguarding the environment is low if it is unable to increase earnings. However, if the company's profits do not rise, the stakeholders begin to lose faith in it and may even sell all of their stock in the business. The results of this research are in line with research conducted by Febriyanti (2021), Sofa & Respati (2020), and Indrianingsih & Agustina (2020) which state that the level of profitability has no effect on the disclosure of sustainability reports.

Liquidity has no effect on sustainability report disclosure

According to the second hypothesis, disclosure in sustainability report does not significantly depend on liquidity. This is due to the company's inability to fulfill its immediate commitments. A company's finances are deemed unhealthy if it is unable to meet its immediate obligations. As a result, there is little to no chance that businesses will submit sustainability reports. Stakeholders may also lose faith in a company because they choose to invest in shares of businesses with steady or even better financial conditions.The findings of this study support those of earlier studies by Oktavia & Amanah (2019) and Nadiya et al. (2021), which found that disclosure of sustainability reports is not significantly impacted by liquidity.

Company size has an effect on the disclosure of the sustainability report

The third hypothesis, according to which the disclosure of sustainability report has a substantial impact on company size. This is because businesses with huge company sizes frequently receive attention from the media and stakeholders, thus they provide more information than businesses with smaller company sizes to persuade stakeholders even more. A corporation gets more attention from stakeholders as it grows in size. As a result, businesses work to establish credibility with stakeholders by requiring complete disclosure of information. The findings of this study support those of Tobing et al. (2019), Nadiya et al. (2021), and Kevin et al. (2019) studies that found that firm size significantly influences the disclosure of sustainability report information.

Capital structure has no effect on sustainability report disclosure

The capital structure has no discernible impact on the disclosure of sustainability report, according to the fourth hypothesis. According to the study's findings, leverage has a negative direction, meaning that there is a negative correlation between leverage and the amount of disclosure in sustainability reports, which means that leverage can lessen the amount of information disclosed about a company's corporate social responsibility.The findings of this study support those of earlier studies by Oktavia & Amanah (2019), Wulandari et al. (2021), and Aini & Subarjo (2018), which found no significant impact of capital structure on sustainability report disclosure.

V. CONCLUSION

The purpose of this study is to offer actual data on the impact of performance (profitability, liquidity), firm size, and capital structure on the disclosure of sustainability reports. Twenty firms that were listed on the Indonesia Stock Exchange (IDX) 2019 until 2021 make up the sample. Based on the results of research that has been carried out through various series starting from data collection, data analysis, and interpretation of the results of the analysis regarding the effect of profitability, liquidity, company size, and capital structure on disclosure of sustainability reports, the following conclusions can be drawn:

1. Profitability has no significant effect on the disclosure of sustainability reports in financial companies listed on the Indonesia Stock Exchange for the 2019-2021 period.
2. Liquidity has no significant effect on sustainability report disclosure in financial companies listed on the Indonesia Stock Exchange for the 2019-2021 period.
3. Company size has a significant effect on disclosure of sustainability reports in financial companies listed on the Indonesia Stock Exchange for the 2019-2021 period.
4. Capital structure has no significant effect on sustainability report disclosure in financial companies listed on the Indonesia Stock Exchange for the 2019-2021 period.

Suggestions for future researchers would want to consider including a sample of businesses from various industries and time periods, as well as selecting different variables.

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