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Analysis of the Effect of Financial Performance on Disclosure of Sustainability Report (Empirical Study of Automotive and Components Manufacturing Companies Listed on the IDX in 2018-2020)

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ABSTRACT: *The purpose of the study was to determine and analyze the effect of profitability, leverage and liquidity on the sustainability report.*This study uses automotive and component manufacturing companies listed on the IDX in 2018-2020 as the study population. By using purposive sampling as a data collection technique, 36 samples of automotive and component manufacturing companies for 3 years were used in this study. The data analysis technique used is analysis using multiple regression analysis and hypothesis testing with SPSS version 26 program. The results of this study indicate that liquidity has a significant effect on the sustainability report. Meanwhile, profitability and leverage do not significantly influence the sustainability report.

Keywords: *profitability, leverage, liquidity, sustainability report*

I. INTRODUCTION

Along with the development of the globalization era, many companies in Indonesia began to grow rapidly in every business sector. Behind the rapid development of the company, the social environment plays an important role in the development of the company. However, with this very rapid development, there are still companies that don't contribute directly to society, without realizing that the environment and social environment are very influential on the sustainability of these companies. However, many companies have also created sustainability reports with the aim of sharing their corporate social responsibility actions and results. Companies are required to provide reciprocity to the social environment, so that the company's existence is maintained.

*Sustainability report*is a measurable report issued by a company or organization on the economic, environmental and social impacts caused by the company's daily operational activities. The sustainability report also presents the values and models of corporate governance and shows the relationship between its strategy and commitment to a sustainable global economy. This report is an intrinsic element of integrated reporting and a more recent development that combines analysis of financial and non-financial performance with both qualitative and quantitative information. The Global Reporting Initiative (GRI), which is headquartered in the Netherlands, develops a sustainability report framework which is a guideline for companies disclosing sustainability reporting. The latest guidelines produced by GRI are the G3 Guidelines (Dilling, 2009). The GRI 2009B explains, the G3 Guidelines contain standards for disclosure of sustainable reports concerning 3 aspects that must be met, namely: organizational profiles, performance indicators and management approaches including those related to good corporate governance.

Various Regulations and Laws have been issued by the Government to support Sustainability Development in Indonesia. Like Law Number 40 of 2007 Article 74 concerning Limited Liability Companies (PT), that every company that carries out its business activities in fields related to natural resources is obliged to carry out social and environmental responsibility. In Article 66, it is stated that in addition to submitting financial reports, Limited Liability Companies are also required to report the implementation of social and environmental responsibilities (Republic of Indonesia, 2007). Law Number 32 of 2009 Article 22 concerning requiring an AMDAL (Environmental Impact Analysis) as a prerequisite for obtaining a business or activity license (Republic of Indonesia, 2009). In addition, in Law Number 3 of 2014 concerning Industry described in Article 79, it is stated that the Green Industry Standard (SIH) contains at least provisions regarding raw materials, auxiliary materials, energy, production processes, products, business management and waste management. In addition to the Guidelines for Preparation of Green Industry Standards (Republic of Indonesia, 2014).

*Sustainability Report*It is very necessary that stakeholders, including the community, know all forms of corporate responsibility to the social environment. This is considering the many cases that have occurred in Indonesia related to the environment, such as the tragedy of the hot mudflow in Sidoarjo because PT. Lapindo Brantas Inc, Pollution of Buyat Bay in South Minahasa because PT. Newmont Minahasa Raya (WALHI, 2010) and PT Freeport Indonesia are related to the large waste disposal capacity 3 so that Lake Wanagon has collapsed three times (Rudito and Famiola, 2007; in Anatan, 2010). The related company must be responsible for the losses that the community suffers due to the impact of the incident. Companies can report the responsibilities that have been carried out in a sustainability report or Sustainability Report.

Research on sustainability reports has been carried out by several researchers. Research conducted by Ratnasari (2011) tested the effect of corporate governance characteristics on the extent of disclosure of corporate social responsibility in sustainability reports as seen from the size of the board of commissioners, the number of board of commissioners meetings, the proportion of independent commissioners, the size of the audit committee, the number of meetings and audit committees. The results of the partial test show that the characteristics of corporate governance do not significantly influence the extent of disclosure of the sustainability report.

Another study was conducted by Suryono and Prastiwi (2011) with the aim of research to determine differences in company characteristics (profitability, liquidity, leverage, activity, company size) and corporate governance (audit committee, board of directors, governance committee) of companies that issue sustainability reports with those that don't issue. The results of the study show that except for leverage, all company characteristics and corporate governance mechanisms differ significantly between companies that issue sustainability reports and those that do not. Furthermore, there is a positive influence caused by the variable profitability, company size, board of directors, and audit committee. While variables such as liquidity, leverage, activity,

In addition to the sustainability report, financial performance is one of the most important things in the company, both internally and externally. There are three financial ratios used in this study, namely profitability, leverage, and liquidity. Profitability ratios are used to determine a company's ability to earn profits using its own capital. The leverage ratio is used to determine the composition of a company's capital originating from debt or loans. And the liquidity ratio is used to determine the company's ability to meet its short-term obligations. Published financial reports are very important for go public companies such as automotive and component sub-sector companies listed on the Indonesia Stock Exchange (IDX).

Automotive and component companies are one of the sub-sectors of various industrial manufacturing companies listed on the Indonesia Stock Exchange (IDX). The Indonesian automotive industry has become an important pillar in the manufacturing sector as many world-renowned car companies reopened their car manufacturing plants. The Indonesian government itself continues to encourage the automotive industry to continue to grow and develop. Investment activity in the automotive sector is also supported by the government. Investment activity is an activity that is exposed to various kinds of risks and uncertainties. To reduce the possibility of risks and uncertainties that will occur, investors need relevant information. Financial reports are a means of information commonly used by investors to see the financial position and financial performance of a company. Assessment of the company's financial performance is important as a means or indicator in order to improve the company's operational activities so that it is hoped that the company can experience better financial growth and also be able to compete with other companies.

II. MATERIALS AND METHODS

2.1 Stakeholder Theory

Stakeholder theory is defined as any group or individual that can influence or be affected by company operations and activities (Sari and Helmayunita, 2019). Widiastuti (2012) reveals that stakeholder theory is a theory that explains that a company is not an entity that only operates for its own sake, but must provide benefits to its stakeholders.

2.2 Legitimacy

Legitimacy is an important thing for companies because it relates to the values or norms that companies have in interacting with social and surrounding relationships (Kurniawati and Yaya, 2017). According to Dowling and Pfeffer (1975) legitimacy is important for organizations, the boundaries imposed by social norms and values, and reactions to these boundaries encourage the importance of analyzing organizational behavior with respect to the environment.

2.3 Sustainability Report

Continuous disclosure is a voluntary type of report, this report is disclosed as a complement to the financial statements and is separate from the company's financial statements. Sustainability Report to complement the company's financial statements is very important for stakeholders and the company itself. The Sustainability Report reveals three performances related to economic, social and environmental performance. According to GRI (2006), defines sustainability reporting as a practice in measuring and disclosing company activities, as a responsibility to internal and external stakeholders regarding organizational performance in realizing sustainable development goals.

2.4 Profitability

Profitability is a company's ability to gain profits related to sales, total activity, and capital (Abdullah, 2010). Profitability is good news that encourages companies to disclose more information to the public, including disclosure of social responsibility. The results of the study (Janna and Kurnia, 2016) show that the profitability variable influences the disclosure of a company's sustainability report. This is consistent with the theory that companies or entities that have profitability with a high value tend to disclose more company information because they want to show it to the public. Likewise, the results of Tobing's research (2019) show that profitability has a positive effect on Sustainability Report Disclosure.

H1: Profitability has a significant positive effect on the sustainability report.

2.5 leverage

Funds obtained through debt (leverage) are expected to be managed properly with the hope of generating a flow of funds in the future in an amount greater than the amount of funds released (Solikahan, et.al. 2013).Funds sourced from leverage can be allocated in the form of corporate social responsibility in order to gain a positive public image of the company. Based on agency theory, companies that have high leverage ratios tend to disclose more extensive information, because companies with such a capital structure will incur higher agency costs (Jensen and Meckling, 1976). This is because creditors and shareholders need clear information about the company's ability to fulfill its obligations and the impact that long-term debt can have on disclosure of corporate social responsibility. In line with the explanation above, the results of Aniktia's research (2015) show that leverage has a positive effect on Sustainability Report disclosure.

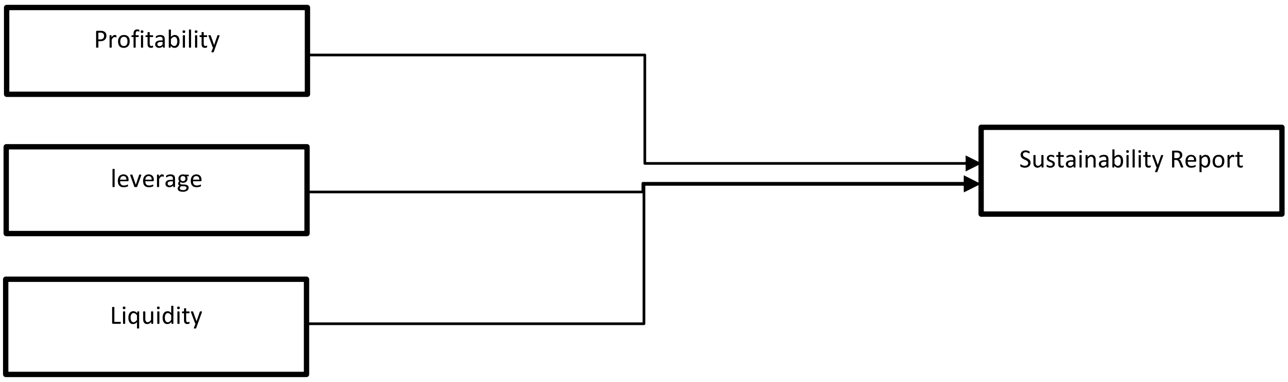
H2: Leverage has a significant effect on the sustainability report.

2.6 Liquidity

According to Putri (2017) a company that has a high level of liquidity is an illustration of the company's success in paying its short-term obligations on time. One form of appreciation that will be shown by the company to increase the trust and positive image that already exists is by publishing additional information that represents company activities that care about social and environmental responsibility. Wallance and Naser (1994) argue that liquidity is an important factor in the evaluation of companies by interested parties such as investors, creditors and local governments. Companies that have a high liquidity value will have a greater company in paying their bills, and will also affect the extent of disclosure of social responsibility. The liquidity ratio shows that the higher the ratio, the greater the company's ability to pay its various bills. Therefore it will also affect the level of disclosure of social responsibility. Marsuking's research (2020) shows that liquidity has a positive effect on Sustainability Report disclosure:

H3: Company growth has a positive and significant effect on firm value.

The framework of thought in this study is presented as follows:



III. RESEARCH METHODOLOGY

This research is a quantitative research. The population in this study are automotive and component manufacturing companies listed on the IDX in 2018-2020. The sample in this study was taken using a purposive sampling method with the following criteria:

1. Automotive and component manufacturing companies listed on the IDX in 2019-2021.
2. Automotive and component manufacturing companies that publish financial reports consecutively during the 2019-2021 period.
3. Automotive and component manufacturing companies whose financial statements are presented in rupiah.
4. Manufacturing companies in the automotive and component sub-sectors that have the data variables needed in this study.

By using this sampling method, the samples used in this study were 36 companies for 3 years. For data analysis, researchers used multiple linear regression analysis using the SPSS 26 program.

IV. DISCUSSION

Research result

Table of Multiple Linear Regression Analysis Test Results

Variable	Regression Coefficient	tcount	*Sig*	Ket

Constanta	0.628	10,239	0.000	
Profitability	0.469	1,867	0.071	H1 is rejected
leverage	-0.040	-0.426	0.673	H2 is rejected
Liquidity	-0.018	-2,427	0.021	H3 is accepted
R2 = 0.240		Fcount =	3,369	
Adjusted R2 = 0.169		Sig =	0.030	

Source: Processed data, 2022

The model of this research is:

SR = 0.628 + 0.469 PROF – 0.040 DEBT – 0.018 LIQU + ε

Discussion

Profitability Effect on Disclosure of Sustainability Report

Based on the t test performed, it obtained a t count > ttable profitability of 1.867 <2.02809 and a significant value of 0.071 > 5%, so H1 was rejected which means that profitability has no effect on sustainability report disclosure. The results showed that profitability did not have a significant positive effect on sustainability reporting. This is not in accordance with the theory put forward by Ghozali and Chariri (2007) that companies that have a high level of profitability tend to disclose more information, because they want to show the public and stakeholders that companies have a high level of profitability compared to other companies in the industry. the same one. So this difference can occur due to differences in the GRI standard items used, from previously using GRI G3 to G4. So that there are still not many companies that use this latest standard resulting in research results from the sample taken does not show a positive significant effect between profitability and sustainability report disclosure. This can also happen, maybe because of the company's awareness of the importance of disclosing SR so that companies with a small level of profitability have already disclosed their sustainability reports smoothly in the year of the study concerned. The results of this study support research conducted by Setiawan (2019) that profitability does not affect the disclosure of sustainability reports. So that there are still not many companies that use this latest standard resulting in research results from the sample taken does not show a positive significant effect between profitability and sustainability report disclosure. This can also happen, maybe because of the company's awareness of the importance of disclosing SR so that companies with a small level of profitability have already disclosed their sustainability reports smoothly in the year of the study concerned. The results of this study support research conducted by Setiawan (2019) that profitability does not affect the disclosure of sustainability reports. So that there are still not many companies that use this latest standard resulting in research results from the sample taken does not show a positive significant effect between profitability and sustainability report disclosure. This can also happen, maybe because of the company's awareness of the importance of disclosing SR so that companies with a small level of profitability have already disclosed their sustainability reports smoothly in the year of the study concerned. The results of this study support research conducted by Setiawan (2019) that profitability does not affect the disclosure of sustainability reports. This can also happen, maybe because of the company's awareness of the importance of disclosing SR so that companies with a small level of profitability have already disclosed their sustainability reports smoothly in the year of the study concerned. The results of this study support research conducted by Setiawan (2019) that profitability does not affect the disclosure of sustainability reports. This can also happen, maybe because of the company's awareness of the importance of disclosing SR so that companies with a small level of profitability have already disclosed their sustainability reports smoothly in the year of the study concerned. The results of this study support research conducted by Setiawan (2019) that profitability does not affect the disclosure of sustainability reports.

Leverage Effect on Disclosure of Sustainability Report

Based on the results of testing the second hypothesis, the results of the t test obtained a t count > t table leverage of -0.426 < -2.02809 and a significant value of 0.673 > 5%, so H2 was rejected which means leverage has no effect on sustainability report disclosure. According to Belkaoui (1989) the higher the leverage level, the more likely the company will violate the credit agreement, so the company will try to report higher profits, one of which can be done by reducing costs including costs for disclosing social, environmental, and social information. economy. This is because the cost in the process of making a Sustainability Report is quite high to be presented consistently every year. The results of this study are in line with research conducted by Afifulhaq (2018) that Leverage has no significant effect on Sustainability Report disclosure. In Indonesia, there is a high degree of dependence from companies on debts that occur. This is reflected in the ratio of debt to the total value of assets which is almost close to number one. This can be interpreted that companies in Indonesia have assets that are mostly funded by debt. So that the size of a company's leverage ratio does not affect the disclosure of a company's Sustainability Report. This is reflected in the ratio of debt to the total value of assets which is almost close to number one. This can be interpreted that companies in Indonesia have assets that are mostly funded by debt. So that the size of a company's leverage ratio does not affect the disclosure of a company's Sustainability Report. This is reflected in the ratio of debt to the total value of assets which is almost close to number one. This can be interpreted that companies in Indonesia have assets that are mostly funded by debt. So that the size of a company's leverage ratio does not affect the disclosure of a company's Sustainability Report.

Liquidity Influence on Disclosure of Sustainability Report

Based on the results of the third hypothesis testing, it was found that liquidity affects the disclosure of sustainability reporting. This is evidenced by the t-count results for the t-count variable for liquidity of -2.427 > -2.02809 and a significant value of 0.021 <5%, so that H3 is accepted, which means that liquidity affects the disclosure of sustainability reports. It can be interpreted that the disclosure of the Sustainability Report is able to increase stakeholder support which can encourage the survival of the company. The survival of the company is obtained from the incoming investment. Investments obtained from stakeholders can be used to finance the company's obligations, so that the company's liquidity increases. So it can be concluded that liquidity has an influence on the disclosure of the sustainability report of companies manufacturing the automotive and component sub-sectors. The results of this study support research conducted by Mujiani and Nurfitri (2020) that liquidity affects the disclosure of sustainability reports.

V. CONCLUSION

This research is a quantitative study with the aim of looking for empirical evidence regarding the effect of profitability, leverage, and liquidity on the sustainability report. The results of this study indicate that liquidity has a significant effect on the sustainability report. Meanwhile, profitability and leverage do not significantly influence the sustainability report.

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