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THE EFFECT OF SUSTAINABILITY REPORTING DISCLOSURE ON FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES ON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT - This research aims to determine the influence of sustainability reporting disclosure on the financial performance of manufacturing companies. The results of this study are important to provide contributions and input for the companies in order to increase issue sustainability reports consistently in accordance with the rules by Otoritas Jasa Keuangan Regulation No. 51/2017. This study was conducted on 33 companies in Indonesian Stock Exchange (IDX) by using multiple linear regression analysis method. The information was taken from financial reports and sustainability reports in the 2020-2022 period. The study result shows that Economic Disclosure (EcDI) and Environmental Disclosure (EnDI) sustainability reporting has negative and significant effect on Return on Assets (ROA). In contrast, Social Disclosure (SoDI) sustainability reporting has a positive and significant effect on Return on Assets (ROA).

Keywords: Financial performance, sustainability reporting, economic performance, environmental performance, social performance.

INTRODUCTION

The financial performance of a company refers to the company's financial condition produced during the company's exercises inside a certain period. According to Dewi (2019), optimal financial performance is influenced by different components. The profitability ratio used in the past research is based on the projected return on asset (ROA). Because this ratio can measure the profit from a company’s investment activities and the ability of management to generate profits or profits as a whole. One factor that incorporate a noteworthy effect on financial performance is the Sustainability Report. Where the results of research show the corporate social responsibility (CSR) affects company profitability. In Indonesia, the provisions on sustainability reporting are regulated by Law No. 40/2007 on public companies, mandates that individuals or business entities operating in sectors related to natural resources must carry out environmental and social responsibilities. So that the economic, environmental and social performance carried out by the organization will be able to create positive value for stakeholders, to be able to make strides the company's financial performance.

In some environmental cases that occur in Indonesia, businesses are now more concerned about reporting how they affect the economy, social and the environment. Through

Otoritas Jasa Keuangan (OJK) Regulation No. 51/2017 on Sustainability Finance requires Financial Service Institutions, Issuers and Public Companies to submit Sustainability Reports (Sustainable Finance Indonesia, 2021). The disclosure of this sustainability reporting has increased every year starting in 2005 with one company that makes disclosures, until the end of 2022. Out of 229 companies, it turned out that only 69 manufacturing companies had issued Sustainability Reports. The company has shown great concern for sustainability in the economic disclosure (EcDI), environmental disclosure (EnDI) and social disclosure (SoDI) in which it operates. However, Weber et al. (2008) found the reporting in sustainability reporting has a correlation with corporate financial performance. In addition, it was conveyed that the disclosure of sustainability reporting also has the potential to improve financial performance.

In Indonesia, sustainability reporting disclosure has started to become a trend and is a compelling area for research. Stakeholder demands encourage companies to provide transparent information, demonstrate accountability, and showcase good corporate governance practices. The phenomenon of corporate social responsibility (CSR) can be seen from Unilever Indonesia Corporation is one of the private companies in Indonesia that discloses sustainability reports where they publish the responsibilities of several pillars. Companies should not only seek profits but must care and participate in helping people to feel prosperous (people) and take responsibility in protecting nature (planet). This term is known as sustainability which means that a company can last for a long time or become a company called a long-life company.

There have been several previous studies that discuss the effect of sustainability reporting disclosure. Research by Buallay (2020) presents that all sustainability reporting performance, including economic disclosure, environmental disclosure, and social disclosure have a significant positive affect on return on assets of manufacturing companies. However, Mulpiani (2019) shows that economic disclosure, environmental disclosure has a significant impact on return on assets, while social disclosure has no impact on return on assets. On the other hand, Permata Sari and Andreas (2019) reveal that sustainability reporting, especially on economic disclosure, and environmental disclosure, partially incorporates a positive effect on return on assets, while social disclosure incorporates a negative impact on return on assets.

LITERATURE REVIEW

Stakeholder Theory

Stakeholders require disclosure of information that is mandatory for the operational activities of an organization within financial statements while for the sustainability of a company it is necessary to disclose a sustainability report (Liana, 2019). Stakeholder theory can provide an establishment that a company must be able to supply benefits to its stakeholders. These benefits can be given by disclosing sustainability reporting (Rindiyawati & Arifin, 2019)

Financial Performance

Financial performance according to Kasmir (2014) is an examination conducted to see the degree to which an organization has actualized using financial implementation rule appropriately then accurately. Furthermore, financial performance is also an evaluation of the level of efficiency and productivity of companies in the financial sector to see the company's capacity to supervise its assets using financial implementation rule properly and correctly which are as a rule measured by markers of capital liquidity, adequacy and profitability.

In this study, using profitability ratios through projected return on assets (ROA), because this ratio has the ability to measure companies in generating profits derived from investment activities and to measure management's ability to obtain overall finance (profit). The profitability ratio is a ratio used to determine the financial condition of an organization. This ratio could be a degree how much the rate of return (%) of resources claimed (Kasmir, 2014).

Sustainability Report

Law of No. 40/2007 (74) concerning Limited Liability Companies explains that the business whose organization activities are in the field and related to biosphere resources are obliged to carry out environmental and social responsibilities around. Sustainability reports help organization to set purposes, manage change and measure performance.

Corporate social responsibility (CSR) is calculated based on the number of disclosures made by companies and divided by 91 indicators based on Global Reporting Initiative (GRI). The indicators in the GRI standard are economic (9 items), environmental (34 items), and social (48 items) with total performance indicators reaching 91 indicators.

Hypothesis Development

1. Economics Performance Disclosure (EcDI)

Increasing economic growth and market existence by taking into account economic value, financial implications, scope of obligations, assistance from the government, as well as wage ratios, management of local communities, infrastructure development and purchases from local suppliers as well as paying attention to taxes and procurement practices impacts sustainability, particularly in terms of increased production and consumption (Buallay, 2020)

H1: EcDI has a significant impact on ROA.

2. Environmental Performance Disclosure (EnDI)

The company's capacity to communicate environmental activities such as materials used, energy and water consumed, emissions, effluent and waste generated, as well as supplier assessment of the environment to company stakeholders is considered exceptionally imperative to increase the notoriety and believe of stakeholders, including consumers which can result in an increase in company revenue. Disclosure of environmental performance is exceptionally imperative to appear the presence and environmental issue. Companies got to appear all of that to induce affirmation that the company has worked in agreement with applicable norms, rules, and controls. The better the organization’s environmental performance, the way better its financial performance will be due to income era and cost efficiency that will drive the company's profitability (Ernst & Young, 2013)

H2: EnDI has a significant impact on ROA.

3. Social Performance Disclosure (SoDI)

The business’s concern in predicting issues related to society such as community, public policy, debasement, anti-competitive such as anti-trust and imposing business model. SoDI will have an affect on stakeholder perceptions of the organization’s treatment of encompassing human resources. Implementing social responsibility and reporting to stakeholders can increase employee loyalty and improve welfare, as well as reduce employee turnover and increase business productivity (Ria & Josua, 2014).

H3: SoDI has a significant impact on ROA.

RESEARCH METHODS

Research Population and Data

This study used secondary data source, specifically the sustainability reports and financial statements of 229 manufacturing companies listed on the Indonesian Stock Exchange from 2020 to December 31, 2022. The sample represents a subset of the population’s characteristics. Although the sample is only a portion of the population, the findings from it should accurately reflect the population as a whole (Azuar et al., 2014). The total observations in this study involved 33 companies over a 3-year period.

Operational Definition and Measurement of Variables

1. Dependent Variable

This study examines financial performance (ROA) as the dependent variable. This ratio is used to measure the rate of return on assets held by manufacturing companies listed on the Indonesian Stock Exchange. Referring to previous research, this study uses ROA analysis to assess the profitability level within the company. ROA is the ratio of net benefit after tax to total assets.

$$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

2. Independent Variable

This study applies three independent variables, which is: EcDI, EnDI and SoDI as variables that influence sustainability reporting disclosure.

a. Economics Performance Disclosure (EcDI)
Economic performance disclosure can give a clarification of the company's effect on the economic situations of stakeholders and on the economic system at the local, national and worldwide degree.

$$EcDI = \frac{K}{N}$$

b. Environmental Performance Disclosure (EnDI)
Environmental performance disclosures are disclosures relating to a company's impact on living and non-living natural frameworks, counting arrive, discuss, water and environments.

$$EnDI = \frac{K}{N}$$

c. Social Performance Disclosure (SoDI)
Social performance disclosure concerns the effect of the company on the communities in which it works and depicts the dangers of interaction with another social teach.

$$SoDI = \frac{K}{N}$$

K= Number of items disclosed
N= The expected number of items is disclosed

Data Analysis Method

Information examination utilized Microsoft Excel to recapitulate then degree the ratio of each variable. The following step used multiple linear regression models testing utilizing SPSS version 24. Multiple linear regression model is a statistical technique to anticipate variance in the dependent variable by progressing the independent variable above it (Uma & Roger, 2016) First, the primary model in the study was selected, followed by testing for classical assumptions. The results of the regression test were then interpreted as the study findings.

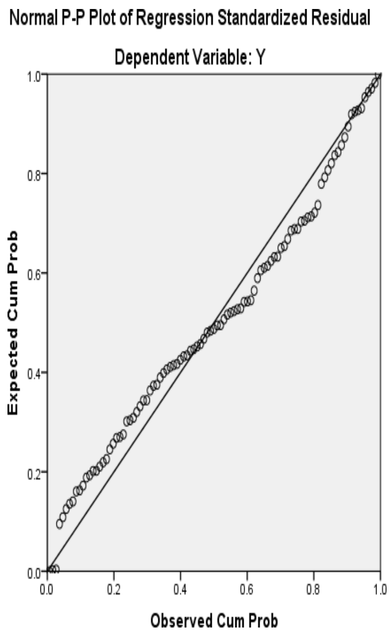
Classical assumption tests are generally performed by normality test, multicollinearity test, autocorrelation test and heteroscedasticity test. The normality test has the reason of testing whether in a regression model, confounding or residual variables have a normal distribution. A regression model can be considered strong if there is no multicollinearity, meaning there is no relationship between the independent variables. Autocorrelation testing aims to determine whether there is a relationship between error terms in the current period and those in previous periods in a linear regression model. If such a relationship exists, then an autocorrelation issue is present. Heteroscedasticity testing in a regression model is performed to check for variance inequality in residuals across observations (Azuar *et al.,* 2014).

RESULTS

Classic Assumption Test

Normality Test

The assumption assesses whether the data used in the regression model are normally distributed or not.



Based on the test results of the P-Plot chart, it was found that the focuses spread around the line and take after the inclining line. It can be concluded that the regression model used is attainable, since the data used are normally distributed.

Multicollinearity Tests

The test that assesses whether a relationship exists between the independent variables in the regression model is called the multicollinearity test. If the VIF value is less than 10 or the tolerance value is greater than 0.01, then multicollinearity is considered not to be present.

Model		**Collinearity Statistic**	
(1)	Constant	Tolerance	VIF
EcDI		.704	1.420
EnDI		.590	1.694
SoDI		.496	2.016

From the data above, the tolerance values for each variable are as follows: EcDI at 0.704, EnDI at 0.590, and SoDI at 0.496, all of which are greater than 0.01. The VIF values for each variable are EcDI at 1.420, EnDI at 1.694, and SoDI at 2.016, all of which are less than 10. Therefore, it can be concluded that this regression model does not exhibit multicollinearity.

Autocorrelation Test

The autocorrelation is carried out to decide whether within the regression model, there's a relationship between the residual in few perception periods.

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
,666[a]	,444	,426	,04019	1,850

The test result shows that the DW stat value is 1,850, which is smaller than 4-dU 2,2425 (4-1,7575). Meaning dW < 4-dU or 1,850 < 2,2425 thus that no autocorrelation occurs.

Heteroscedasticity Test

Heteroscedasticity testing is conducted to evaluate the variance inequality of residuals across observations. If the significance value exceeds 0.05, it indicates that heteroscedasticity is not present in the model.

Model		**t**	**Sig.**
1	(Constant)	5,322	,000
	EcDI	-,963	,338
	EnDI	-,472	,633
	SoDI	-,166	,869

It can be observed that the significance values for the variables are as follows: EcDI at 0.338, EnDI at 0.633, and SoDI at 0.869, all of which are greater than 0.05. This indicates that heteroscedasticity is not present. Therefore, it can be concluded that heteroscedasticity does not occur, making the model suitable for use.

ANOVA[a]					
Model	**Sum of Squares**	**df**	**Mean Squares**	**F**	**Sig.**
Regression	,122	3	,041	25,258	,000[b]
Residual	,153	95	,002		
Total	,276	98			

Model	B	Std. Error	Beta	t	Sig.
(Constant)	,096	,010		9,300	,000
EcDI	-,180	,022	-,732	-8,027	,000
EnDI	-,071	,030	-,238	-2,394	,019
SoDI	,238	,039	,657	6,047	,000

Based on the description of the table, the multiple regression equation is compiled as follows:

$$Y = 0{,}096 - 0{,}180X1 - 0.071X2 + 0{,}238X3 + \varepsilon$$

Hypothesis Testing

The SPSS results from the ANOVA test indicate a significance value of 0.000, which is smaller than α = 5%. This implies that all independent variables (EcDI, EnDI, SoDI) have an influence on the dependent variable (ROA), meaning this regression model can be used to predict Y.

Based on the processing results, the regression coefficient value for EcDI was -0.180, with a significance value of 0.000. This indicates that the significance value is less than 0.05. Therefore, the conclusion is that the EcDI variable has a negative but significant effect on ROA. The regression coefficient value for EnDI was -0.071, with a significance value of 0.019. This also indicates that the significance value is less than 0.05, leading to the conclusion that EnDI has a negative but significant influence on ROA.

Based on the results, the regression coefficient value for SoDI was 0.238, with a significance value of 0.000. This indicates that the significance value is less than 0.05, leading to the conclusion that SoDI has a significant effect on ROA. This demonstrates that the independent variables (EcDI, EnDI, SoDI) explain 44.4% of the variation in the dependent variable (ROA).

DISCUSSIONS

The Effect of EcDI Sustainability Reporting on ROA

EcDI has a statistically significant effect on ROA. Economic performance is an important aspect for both companies and stakeholders. Reporting on economic performance and sustainability increases organizational transparency, which positively impacts investor confidence. The results of this research are consistent with the studies of Permata Sari & Andreas (2019), Danielle & Agustin (2020), and Mulpiani (2019), which indicate that sustainability reports reflecting EcDI influence profitability.

The Effect of EnDI Sustainability Reporting on ROA

EnDI has an affect ROA. The company's ability to communicate environmental activities is considered important to improve the reputation and trust of stakeholders, including consumers who can increase the company's income. The existence of cases related to the environment experienced by several companies such as the indiscriminate disposal of B3 waste that pollutes the environment has triggered demands from stakeholders to disclose their environmental performance. The results of the study are supported by previous research (Anna & Dwi R.T, 2019; Danielle & Agustin, 2020; Mulpiani, 2019), which stated that EnDI has an effect on ROA.

The Effect of SoDI Sustainability Reporting on ROA

SoDI itself has a measurable effect on ROA. By implementing and reporting on this social performance responsibility to stakeholders, it not only improves financial performance but also enhances employee welfare and loyalty, reduces employee turnover, and maximizes increases in company efficiency. The results of the study are supported by previous research by Buallay (2020) and Danielle & Agustin (2020), who noted that the social dimension significantly impacts a company’s profitability.

CONCLUSION

Based on the results of the research conducted, economic disclosure and environmental disclosure have a negative but significant effect on financial performance. While social disclosure has a positive and significant effect on financial performance. It is anticipated that the findings of this study will provide valuable contributions and insights for organizations to enhance their sustainability reports in accordance with the guidelines established by Otoritas Jasa Keuangan Regulation No. 51/2017.

LIMITATION

This study focuses exclusively on manufacturing companies listed on the Indonesian Stock Exchange, with an observation period of three years (2020-2022). Additionally, many companies are not consistent in publishing their sustainability reports.

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