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DISCLOSURE OF SUSTAINABILITY REPORT ON FINANCIAL PERFORMANCE

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Abstract: Sustainability Report is a concept that a company has a responsibility towards consumers, employees, shareholders, communities, and the environment in all aspects of the company's operations. With the implementation of the sustainability report, the Sustainability report will have an impact on the sustainability of the company. The sustainability report is a non-financial report consisting of six performance elements, namely economy, environment, human rights, labor practices and decent work, social, and product responsibility. The increasing number of companies publishing sustainability reports in Indonesia has led to increased research on the relationship between sustainability reporting and financial performance. However, the results of these studies are still inconsistent. Re-examining the relationship between disclosure of sustainability reports and financial performance is the aim of this study. Two things distinguish this study from previous studies, the first study uses companies that consistently report sustainability reports, and the second uses a measure of financial performance, namely profitability. The sample used is 66 observations from companies that consistently report sustainability reports during the 2017-2019 period. The test results show that the social dimension (SO) of the sustainability report does not affect financial performance, while the other two dimensions, namely the environment (EN) and the Economy (EC), have a positive effect on financial performance.

Keywords: Economic Dimension, Environmental Dimension, Financial Performance, Sustainability Report, Social Dimension

INTRODUCTION

One of the things that are important in every organization is the disclosure of sustainability reports, which has now grown (Ernst & Young 2014). Sustainability, as a contemporary topic related to the conservation of scarce resources, while increasing the standard of living of the current generation, has raised significant global concerns (James, 2014) Many organizations have shifted away from the traditional way of reporting only on financial aspects, to a shift in direction. more modern, namely reporting all aspects both financial and non-financial (social and environmental dimensions) to stakeholders. Sustainability reports from a medium for companies to inform organizational performance in the economic, social, and environmental aspects to all stakeholders. (Ernst & Young 2014) Many organizations predict the market value of an organization using a sustainability report. An organization not only makes financial performance information, but non-financial information is the reason the organization uses its sustainability report. (De Silva, 2018), although sustainability reporting is not a new concept, its implementation is still not systematic. Management, it seems, is not convinced of the importance of sustainability reporting because of high costs and measurement difficulties. This results in ignorance, neglect, and the unsystematic nature of economic, social, and environmental reporting on organizational sustainability (Kasbun, Teh, & Ong, 2016).

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the inability of financial performance measures to ascertain the company's impact on the economy, environment, and society. Put simply, financial regulatory frameworks ignore positive-negative environmental and social externalities. This stimulates research on environmental, social, and sustainability reporting frameworks applicable to the financial sector (Usenko & Zenkina, 2016). Importantly, the financial sector naturally does not have a direct negative impact on the environment and society because it involves functions in-service (Nwobu, O. A., Owolabi, A. and Iyoha, 2017). However, the implications of banking operations with a diversified pool of customers creating a demand for transparent disclosure for various stakeholders.

Sustainability activities aim to achieve sustainable development with sustainability reports as measurement and disclosure in accountability effort (GRI., 2013). Companies are currently very considering will be sustainable which will be able to increase the value of the company, so that the support obtained from stakeholder both internal and external. Thus the company can communicate activities and social and environmental performance effectively to achieve sustainability report considered essential for long-term success, organizational growth.

Positive and negative impacts on economic, social, and environmental aspects are the responsibility of the company (Elkington, 1997). Sustainability reporting has been proven to create new opportunities because companies brand their sustainability reports to reflect personalities who are responsible for the company's success and business strategy, (Deloitte, 2013).

With the encouragement of giving annual awards for Sustainability report which was initiated by NCSR, in Indonesia publication sustainability report has started to become a trend. Besides that, the demands are strengthened stakeholders encourage companies to provide transparent, accountable information and good corporate governance practices. (Tarigan & Semuel, 2015),(Reddy & Gordon, 2010)(Bartlett, 2012). This research attempts to link social responsibility with financial performance exploded during the 1980s with two opposing views (Frederick, 2006). One view is that companies face a trade-off between social responsibility and financial performance. Therefore to enrich the research model sustainability report will use existing financial performance indicators. Besides, this research also conducts a more in-depth study Thus the purpose of this study is to reexamine to find out the disclosure of Sustainability Report, economic dimensions, environmental dimensions, social dimensions of financial performance, to find out the disclosure of Sustainability Report, the economic dimensions of financial performance, To determine the disclosure of Sustainability Report, environmental dimensions of financial performance. Report on the social dimensions of financial performance. *Stakeholders Theory* One of the main theories that are widely used to base research on sustainability reports is the stakeholder theory. Sustainability report not only extending organizational responsibility to all stakeholders (Donaldson & Preston, 1995). Initial thoughts about stakeholder theory (Freeman, 1984), define stakeholder s as a group that significantly affects the success and failure of an organization. Companies must maintain relationships, especially with stakeholders who have power over the availability of resources used for the company's operational activities, such as labor, customers, and owners. Likewise with stakeholders by accommodating existing wants and needs. Therefore the survival of the organization depends on the support of stakeholders. So that the company's activity is to seek this support. Reveal a sustainability report which includes economic, social, and environmental aspects is one strategy to maintain relationships with company stakeholders. The disclosure sustainability report is expected to fulfill the wishes of the stakeholders. This will result in a harmonious relationship between the company and its stakeholders. So that the organization can achieve sustainability in the future. Legitimacy

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theory is the second theory that influences sustainability report thinking. Thus, legitimacy is a potential benefit or resource for the company as a going concern(Adila & Syofyan, 2016). Legitimacy theory encourages companies to be able to ensure that the activities carried out and the company's performance can be accepted by the community. The report on corporate social and environmental responsibility activities as outlined in the Sustainability Report can be used by companies to state that the company has implemented social responsibility. This is an effort so that the existence of the organization can be accepted by the community or the environment in which the company operates. Legitimacy from the community is an important operational resource for the company (Tarigan & Semuel, 2015).

The social contract that occurs between the company and the community where the company operates is the basis for the theory of legitimacy. the survival and growth of an organization depend on being can be contributed by the organization to the wider community. The concept of a social contract where all organizations have a social contract, either explicit or implicit (Tarigan & Semuel, 2015).

A sustainability report contains information on non-financial information, namely information on social and environmental activities that enable the company to grow sustainably (Elkington, 1997). One of the guidelines for sustainability reports is GRI. In Indonesia this guideline is used by the NCSR, an institution independent also periodically provide assessments sustainability report submitted by companies. The benefits are (1) as benchmarks organizational performance by taking into account laws, norms, statutes, performance standards, and voluntary initiatives, (2) demonstrating organizational commitment to sustainable development, (3) comparing organizational performance over time.

Also, the small number of guaranteed sustainability reports indicates that these reports are not widely distributed among companies, which corroborates the findings (junior, R. M., Best, P. J., Cotter, 2014). Although, guarantees for sustainability reporting are voluntary, unlike financial reports, the technical content justifies the need for verification. Besides, external assurance prevents criticism of sustainability reporting that the embedded information is collected and self-reported (Romolini, A., Fissi, S., Gori, 2014).

Sustainability report has a significant effect on financial performance, to improve the sustainability and reporting performance of a company is as important as improving financial performance (Aggarwal, 2013). The financial ratios of a company can be used to measure financial performance (Ross, Wastefield, & Jordan, 2013). A *sustainability report can accurately and fairly reflect the company's financial performance* (Buallay, 2019).

Sustainability reporting for companies is useful for publishing information that reflects organizational performance in economic, social, and environmental dimensions (ACCA, 2013) In the current era of globalization, stakeholders do not only look at company performance from financial performance. Sustainability Reporting is growing. Sustainability reporting is also seen by companies to introduce and strengthen sustainability principles throughout the organization by perfecting their integration into planning and decision making that leads to improved sustainability performance. (Eduardus, 2014)

Naturally, if stakeholders and shareholders as potential investors seek lower risks and higher returns if they want to invest. As such, sustainability reporting will increase share prices in two ways: a) increase revenue, net income, and thereby inspire better financial performance; b) assuring shareholders of the safety of their investments (Khaveh, Rajab Nikhashemi, Yousefi, & Haque, 2012).

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Stakeholders are assured employing the information contained in the Economic Dimensions (EC) Sustainability Report regarding the resource potential of a competitive modality with a low level of risk. Organizations that are transparent in terms of the accuracy of analysis experience and low information asymmetry are the reasons investors choose to invest in these organizations. With the trust of investors and creditors, the amount of funding in the company will increase. Organizations can use this funding to improve financial performance (Ernst & Young 2014).

H1: Disclosure sustainability report economic dimension (EC) affects financial performance.

Stakeholders can assure through the information contained in the economic dimension (EC) sustainability report regarding the potential of competitive model resources with a low level of risk. Organizations that are transparent in terms of the accuracy of analysis experience and low information asymmetry are the reasons investors choose to invest in these organizations. With the trust of investors and creditors, the amount of funding in the company will increase. Organizations can use this funding to improve financial performance, (Ernst & Young, 2014)).

H2: Disclosure sustainability report environmental dimension (EN) affects financial performance.

elated to environmental activities (EN), social activities (SO) also require investment in assets to carry out sustainability activities in the field of social aspects. *Sustainability activities This is done not only to external stakeholders but also internally. Thus, the impact of disclosing social sustainability reports (SO) can be felt by all stakeholders of the organization. In increasing the company's average share price and increasing welfare, employee loyalty, and reducing employee turnover, companies can carry out and report social responsibility (SO) to stakeholders* (Ernst & Young 2014). The existence of sustainability report disclosure in the social aspect (SO) is important and affects the financial performance of the organization. (Burhan 2012).

H3: there is an influence between disclosures sustainability report social dimension (SO) with financial performance**.**

METHODS

This study takes a population of all companies that have reported organizational sustainability reports. With the sample used in the study, namely mining companies, it is because the industrial sector meets the criteria to submit a sustainability report consistently during the 2017-2019 period. The variables in the study include disclosure scores sustainability report (SR) each dimension (Economic, Environmental, Society) as the independent variable, and organizational performance as the dependent variable.

In examining the relationship between the variables to be studied, it is stated in the hypothetical model above. In this study, a one-way analysis of variance (ANOVA) was used (one way), correlation, and multiple linear regression. ANOVA test and correlation using SPSS version 20. The financial performance of company organizations in this study uses the concept of (Ross et al., 2013), which is divided into five groups of financial ratios, namely the dimensions of asset management, profitability, leverage, and liquidity. The dependent variable will get the average of each company's financial ratio that is sampled for the sustainability report.

This study using disclosure variables sustainability report as an independent variable with economic (EC), environmental (EN), and social (SO) aspects as dimensions on the variable disclosure sustainability report. On disclosure sustainability

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report is defined as data disclosed by the company relating to the social activities carried out by the company. in the disclosure variable sustainability report this is measured using an index score on value sustainability report every dimension. With the calculations carried out, it gives a value of 1 if an item is disclosed, and 0 if it is not disclosed in the existing sustainability report.

In this study, data on financial performance variables that will be used are data using ratios and nominal values where the actual quantitative value of the measured variable can be seen. Data obtained from the sustainability report 33 sustainability report companies that were consistently reported during the 2017-2019 period. While the values for the financial performance variables were obtained from 33 company financial reports from 2017-2019.

RESULTS AND DISCUSSION

Based on the results of the analysis of research variables based on the independent variable and the dependent variable. The independent variable is the disclosure sustainability report which is following the standard (GRI., 2013). On the disclosure variable sustainability report This is measured using the score index for each dimension, namely the dimension Economic (EC), Environmental (EN), Human Rights (HR), Labor Practices (LA) & Decent Work, Society (SO), and Product Responsibility (PR). Meanwhile, the dependent variable is financial performance, which is measured using a group of ratios that is by the concept of (Ross et al., 2013), namely dimensions, profitability.

Table 1 Simultaneous Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	,038	3	,013	4,620	,009[b]
Residual	,079	29	,003		
Total	,116	32			

a. Dependent Variable: FP
b. Predictors : (Constant), SO, EC, EN

Source: results the output SPSS 2020

Based on the results of statistical tests, the F value was obtained count amounting to 4,620 and F. table amounting to 2.93 then that H 0 rejected, meaning that it can be concluded that there are disclosures together sustainability report on the economic dimension (EC), environment (EN), and social (SO) as a whole has a significant effect on financial performance.

Tabel 1 Regression Test

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-,222	,120		-1,848	,075
	EC	2,238	1,255	,314	1,783	,085
	EN	,701	,203	,751	3,455	,002
	SO	-,557	,374	-,326	-1,491	,147

a. Dependent Variable: FP

Source: results the output SPSS 2020

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Based on the results of the regression test, it shows that the third hypothesis (H3) is rejected, while the other two hypotheses, respectively H1 and H2 are accepted. It can be concluded that there is no influence between disclosures sustainability report social dimension (SO) with financial performance, there is an influence between disclosure sustainability report environmental dimension (EN) with financial performance, and there is an influence between disclosure sustainability report economic dimension (EC) with financial performance. A function that describes the effect of declaring a significant sustainability report variable on financial performance.

Therefore, one hypothesis is rejected, but it can be seen that the aspect of disclosure sustainability report the social dimension (SO) has a harm financial performance. Thus, based on the results of the analysis, it is the same as the results of research conducted by (Trireksani & Djajadikerta, 2016), that the understanding of sustainability reporting in Indonesia is still low. Apart from that, the proceeds from the funding are used for sustainability activities should be able to increase the company's assets both tangible (tangible assets) and intangible assets (intangible assets). It can be seen that the reporting of intangible assets in terms of financial statements (SAK & IFRS) is still very standard, only goodwill, patents, copyrights, and franchise recognized as intangible assets and reported in the balance sheet, while other investment expenditures that have the potential to increase the value of the firm in the future tends to be treated as an expense (expense) periodic and presented in the income statement (SWA, 2006). In this case, it is very important to integrate the discourse between financial statements sustainability reports.

CONCLUSIONS

There is still insufficient evidence to conclusively demonstrate that companies that disclose or report economic, social, and environmental sustainability have better financial performance than those that do not disclose or practice sustainability reporting. This could be due to inadequate reporting. Besides, sustainability reporting is also inconsistent in Indonesia compared to other countries due to the lack of adequate implementation and consistent sustainability reporting. This study found that several companies reported economic, social, and environmental sustainability in previous years but did not report in the current year. The situation is similar to CSR reporting where the reporting is inadequate with companies reporting only a few sustainability activities and only reporting sustainability in general without focusing on each of the respective dimensions of sustainability (economic, social, and environmental). As Indonesia is a developing country that has experienced impressive economic growth in recent decades, with less government intervention than other Asian countries, companies can achieve better sustainability performance and report this to the public. It is encouraging when the number of sustainability reports and reports published in Indonesia in recent years has increasingly shown its benefits.

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