JURNAL AKUNTANSI MANAJEMEN DAN EKONOMI

JURNAL AKUNTANSI, MANAJEMEN DAN EKONOMI
Vol.22, No. 3, pp. 8 - 15
Published online in http://jos.unsoed.ac.id/index.php/jame
ISSN: 1410-9336 / E-ISSN: 2620-8482

The Effect Of Financial Performance And Company Size On The Disclosure Of Sustainability Report

Hibatun Naeem[1], Ignatius Oki Dewa Brata[2]

[1,2,3,4]*Department of Accounting, Faculty of Economics, Universitas Prima Indonesia, Indonesia*

Abstract

Trends regarding Sustainability Reporting in Indonesia are experiencing positive developments. It can be concluded that the company already has an awareness that the company's survival depends on the company's relationship with the environment. This follows the legitimacy theory which states that the company has a contract with the community to carry out its activities based on the values of justice and how the company responds to various interest groups to legitimizing company actions. In this research, researchers aspire to analyze which was more effectively trigger an effect on the development of an upward trend in Sustainability Reporting. From several samples taken, researchers obtained data that represent financial performance and company size. After being processed using logistic regression, it was found that the size of the company had the most effect in the disclosure of Sustainability Report.

Keywords **Sustainability Reporting; Financial Performance; Company Size**

INTRODUCTION

Along with the times, demands from stakeholders on environmental and social issues make companies to start to pay attention to long-term development. Now, the company no longer rests on the Single Bottom Line concept but has switched to the concept introduced by John Elkington (1998), the Triple Bottom Line which focuses on 3P, namely Profit, People, and Planet. This concept tells that the company does not only focus on profit, but the company must also play a role and participate in the welfare of the surrounding community (people) as well as actively contribute to the preservation of the environment (planet). (Almilia, 2008).

Awareness to pay attention to environmental and social aspects began in 1983 when the United Nations formed the Brundtland Committee, where one of the recommendations was sustainable development to be carried out consistently. Sustainable development aims to meet the needs of the current generation without disrupting the ability of future generations to fulfil their lives by paying attention to environmental and social aspects. (Luthfia, 2012).

Weber, Koellner, Habegger, H, & Ohnemus (2008) said that companies that disclose Sustainability Reports want to show the company's commitment towards social and environmental issues to stakeholders as well as show transparency and get feedback on company performance in responding to information demands from stakeholders.

Disclosure of sustainability reports can increase company value and financial performance because through this report, stakeholders can get a clearer and more open depiction of all sustainable activities that have been carried out by the company (Oktaviani, 2018). Performance is the achievement of what is planned, both by individuals and organizations. If the achievement is as planned, the performance will be carried out well. If the achievement exceeds what is planned, it can be said that the performance is good. If the achievement is not following what was planned or less than what was planned, then the performance is poor. Financial performance is a performance measure that uses financial indicators (Silviana, 2014).

SRA Jury Team Chairman, Sarwono Kusumaatmadja, said "Although the sustainability report is still voluntary, up to the end of 2016 there were 120 companies that have published sustainable reports in Indonesia. Hopefully, more and more companies are aware that sustainability reports are very important in building and developing business with stakeholders". In this year's award, Perusahaan Gas Negara

✉Correspondence to : hibatun.naeem@widyatama.ac.id

Received: Feb, 25, 2020
Revised: April, 2, 2020
Accepted: Sep, 17, 2020

(PGN) Tbk managed to become the overall champion (Media Indonesia, 2016).

The trend regarding Sustainability Reporting in Indonesia is experiencing positive developments. From only two companies that published sustainability reports in 2005, to many companies that have published sustainability reports in 2016. According to the National Center for Sustainability Reporting (NCSR), until the end of 2016, there were a total of 120 companies that have published sustainability reports in Indonesia, both public and private companies (Media Indonesia, 2016).

However, this number is still very small when compared to the number of companies in Indonesia, as stated in the following online news site, "The Central Statistics Agency (BPS) has conducted the Economic Census 2016. From the results of the census, the number of companies in Indonesia is recorded as many as 26.7 million. This figure increased compared to the results of the 2006 Economic Census of 22.7 million companies. As such, there are 3.98 million new companies in the last 10 years. The development of the population and the growth of modern businesses such as online businesses contribute to the increasing economic activity in Indonesia (DetikFinance, 2017).

Companies must have an awareness that the survival of the company depends on the company's relationship with the environment. This follows the legitimacy theory which states that the company has a contract with the community to carry out its activities based on the values of justice and how the company responds to various interest groups to legitimize the company's actions (Ludovicus, 2006). If there is any inconsistency between the company's value system and the community's value system, the company will lose its legitimacy which will further threaten the company's survival (Rima Rachmawati, 2007).

The practice of disclosure of social responsibility for companies in Indonesia is still voluntary disclosure, it hasnt't gotten into mandatory disclosure. Even though it is still voluntary, companies increasingly realize that disclosing social activities will further describe the company's role in carrying out its social functions. So, the company can build, maintain and legitimize the company's contribution (Rima Rachmawati, 2007).

NCSR Executive Director Ali Darwin added that the Financial Services Authority (OJK) should emulate the Singapore stock market which requires listed companies to issue sustainability reports. "Mainly, companies that have many contacts with the environment and society, such as mining, plantations, and financial institutions," said Ali. (Media Indonesia, 2016).

In various developed countries in the European region such as Sweden, Finland, the Netherlands, and Germany as well as Asian countries such as Japan, they all have required every company, both state-owned and publicly listed companies, to make a sustainability report. Not surprisingly, those countries received high scores and ratings in the Environmental Performance Index (EPI). Even according to a survey from Japan's Value Champion, it was one of the most environmentally friendly countries in 2018. This is inversely proportional to Indonesia, which ranks 133th out of 180 countries in EPI (News Unika, 2019).

At least 36 people, most of them minors, have died in mining pits former coal mines in various areas of East Kalimantan since 2011. Environmental activists say that currently 1,735 mining pits are left open by the company. Although they are legally obliged to reclaim the former excavation after exploration, the government claims it only found about 500 mining pits in the province which will host the new capital (bbc.com, 2019).

In the Mining Advocacy Network (Jatam) notes since 2011, the death toll in the mine pits is spread in Samarinda (21 people), Kutai Kartanegara (13), West Kutai (1) and North Penajam Paser (1). "The figures are not small. This is a gross human rights violation, even though Komnas HAM has not dared to declare it," said East Kalimantan regional coordinator Jatam, Pradarma Rupang (bbc.com, 2019).

Mining companies are an example of companies directly related to natural resources as mentioned in article 74 paragraph 1 of Law Number 40 of 2007 concerning Limited Liability Companies (PT). But in reality, not all mining companies in Indonesia publish disclosure on sustainability reporting.

Mining industry areas are the regions with the highest poverty rates. Population Economic Geography expert Abdur Rofi said based on data from the Central Statistics Agency in 2018, regions that are rich in natural resources are precisely the poorest in Indonesia. These areas include Papua, West

Papua occupying the poorest regions in Indonesia, which ranks first at 27.74%, followed by West Papua at 23.01%. Whereas the Director-General of Mineral and Coal, Bambang Gatot Ariyono, in the Indonesian Mining Experts Association (Perhapi) forum said, "Since the beginning of the year until now the mining sector's revenue has reached Rp. 39 trillion. The target in the 2018 APBN is only Rp 32.1 trillion. "The mineral sector is still a contributor to the state budget." (Unika News, 2019).

Stakeholder Theory

The term stakeholder was first put forward by the Stanford Research Institute (SRI) and influenced by a process of achieving an organization's goals. This stakeholder theory is a theory that describes which parties an organization or company is responsible for (Freeman, 1984). Freeman defines stakeholders as "any group or individual who can affect or be affected by the achievement of an organization's objective", i.e. stakeholders are groups or individuals who can influence.

Stakeholders can control or influence the use of economic resources used for company operations. Therefore, the strength of these stakeholders is determined by the size of the power possessed by stakeholders over these economic resources. In the concept of stakeholder theory, a company is not only an entity that operates for the interests of the company itself but must also provide benefits for its stakeholders such as shareholders, creditors, consumers, suppliers, governments, communities, analysts and other parties. Thus, it can be said that the existence of a company or organization is greatly influenced by the support given by stakeholders to the company (Ghozali & Chariri, Accounting Theory, 2007).

Legitimacy Theory

Legitimacy is a recognition of the legality of something. An organization's legitimacy can be said as a benefit or potential source for the company to survive (Ghozali & Chariri, 2007). According to this theory, a company operates with permission from the community, where this permit can be withdrawn if the community considers that the company does not do the things that are required to it. Legitimacy is very important for the company, given the company's presence in the social environment or social community that must interact with the community in the company environment. This also relates to the survival of the company itself. Legitimacy theory is very useful in analyzing organizational behaviour. They say:

"Because legitimacy is important to the organization, boundaries are emphasized by social norms and values, and the reaction to these limits drives the importance of analyzing behaviour organizational concerning the environment".

Financial Performance

Financial performance is the result of decisions based on an assessment of the company's ability, both in terms of liquidity, activities, leverage and profitability made by parties interested in the company. Financial performance is used by management as one of the guidelines for managing the resources entrusted to it. Reports on financial performance are made to describe the company's financial condition in the past and are used to predict the financial future (Soeslistyoningrum, 2011). According to Fahmi (2010: 142), the definition of financial performance is as follows:

"Financial performance is an analysis conducted to see the extent to which a company has carried out by using the rules of financial implementation properly and correctly." Performance appraisal of a company is different because it depends on the scope of the business it runs.

Company Size

Company size is a scale or value in which companies can be classified based on total assets, sales and market capitalization. Market capitalization itself is a business term that refers to the overall price of a company's stock, that is, the price a person must pay to buy an entire company. If the greater the total assets, sales and market capitalization, the greater the size of the company. These three indicators can be used to determine the size of the company because it can represent how large the size of the company is. For example, the greater the assets, the more capital is invested, the more sales, the more money turnover and the greater the market capitalization, and thus the greater the company will be known in the community (Triana, 2017).

Sustainability Report

According to Effendi (2009: 109), the sustainability report is:

"Sustainability report is a non-financial report that can be used as a reference by companies to view reporting from the social dimension, economy and environment."

According to Khomsiyah (2009: 24), she states that:

"Sustainability reporting is a report of all aspects that affects the continuity of company operations, namely financial aspects, social aspects, and environmental aspects that occur in the company."

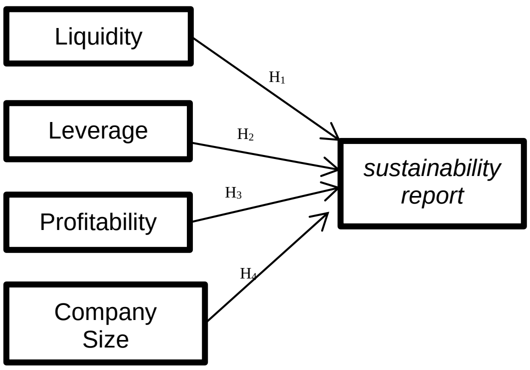
According to GRI (2013), it states that:

"Sustainability Reports is the practice of measurement, disclosure and accountability of organizational performance in achieving goals development sustainable to both internal and external stakeholders. A sustainability report is a general term that is considered synonymous with other terms to describe reports on economic, environmental and social impacts (e.g. triple bottom line, corporate accountability reports, etc.)."

A sustainability report must provide a balanced and reasonable picture from the performance of sustainability in an organization, both positive and negative contributions to the environment, society and economy. Sustainability reporting is a process that helps organizations set goals, measure performance and manage changes to a sustainable global economy. Sustainability reporting is one that combines profitability long-term and social responsibility and stewardship environmental.

Research Hypothesis

Figure 1. Model Test



Based on the concept, previous research and the framework of the framework above, the hypotheses in this study are:

H_1 : Liquidity affects the disclosure of sustainability reports.

H_2 : Leverage affects the disclosure of sustainability reports.

H_3 : Profitability affects the disclosure of sustainability reports.

H_4 : Firm size affects the disclosure of sustainability reports.

METHODS

The research method is a technique or way to find, obtain, collect or record data, both in the form of primary data and secondary data used to compile a scientific work and then analyzing the factors related to the main issues so that there will be a truth data obtained. According to Sugiyono (2014: 5), the research method is a scientific way to obtain data with specific purposes and uses.

The methodology used in this research is explanatory research. Explanatory research is research that highlights the causal relationships between research variables and tests the hypotheses that have been formulated previously. The purpose of the causal study is to be able to state that variable X causes variable Y. The purpose of the study is to determine the effect of liquidity, leverage, profitability and size company on the disclosure of sustainability reports.

Research Variables

Variables are anything that can distinguish or change a value. Value can be different at the same time with different objects and people or anything for the same object or person (Sekaran and Bougie, 2017: 77).

Independent Variable

Liquidity

Liquidity ratio is the ratio used to measure a company's ability to pay its short-term debts. In this study, the liquidity ratio that will be used is the current ratio.

$$\mathrm{CR} = \frac{Current\ Assets}{Current\ Liabilities}$$

Leverage

Leverage ratios are ratios used to measure the extent to which a company's assets are financed by debt. In this study, the leverage ratio that will be used is the debt to equity ratio.

$$\mathrm{DER} = \frac{Debt}{Total\ Equity}$$

Profitability

Profitability is used to measure how much profit the company makes. In this study, the profitability ratio that will be used is return on assets.

$$\mathrm{ROA} = \frac{Nett\ Income}{Total\ Assets}$$

Company Size

Company size is a value that indicates the size of the company. Various proxies can be used to represent company size, namely the number of employees, total assets, log size, the market value of shares, and others. In this study, company size is measured by natural logarithms (Ln) of the average total assets of the company.

$$\mathrm{Firm\ Size}\ = Log\ of\ Total\ Assets$$

Dependent Variable

According to Uma Sekaran and Roger Bougie (2017: 77), the dependent variable is the variable that is the main concern of researchers. Meanwhile, according to Sugiyono (2017: 39), the dependent variable is the variable that is affected or which is due, because of the independent variables. The dependent variable in this study is the disclosure of sustainability reports. This variable uses a dummy. A dummy variable is a variable used to make data categories that are qualitative (nominal) (Santoso, 2010: 185). The measurement is done by giving a value of 1 for companies that do sustainability reports and 0 for companies that do not disclose sustainability reports.

Logistic Regression Analysis Test

Logistic regression is used to predict the magnitude of the dependent variable in the form of a variable binary (nominal type data with two criteria) using free variable data of known magnitude (Santoso, 2010: 174). Logistic regression was chosen because this study has variables dependent which are binary/categorical variables and variables independent that are metric. This test is used to determine the effect of variables of company characteristics on the disclosure of a company's sustainability report. The dependent variable used in the model is a nominal variable, the two criteria determined are whether the company discloses the sustainability report or does not disclose the sustainability report. While the independent variables used in this study are the level of liquidity, leverage, profitability and the size of the company obtained. The model proposed in this study is based on the formulation of problems and theoretical frameworks that have existed before, namely:

$$\mathrm{Y} = \alpha + \beta 1X1 + \beta 2X2 + \beta 3x3 + \beta 4x4$$

Information:
Y =variables binary, the value determined
1 = the company made a sustainability report disclosure
0 = the company did not disclose the sustainability report
α = constant
β = Coefficient
X1 = Liquidity
X2 = Leverage
X3 = Profitability
X4 = Company Size

RESULTS AND DISCUSSION

Logistic Regression Test

The description in table 1 is a prediction of a logistic regression model with observational data, it can be shown by a classification table between the predictions of the logistic regression model and the results of observations. In the table above, the percentage of classification truths for companies that do not disclose sustainability reports is 82.2% where 37 observations can be predicted correctly and 8 observations have errors. The percentage of truth for companies that make disclosures in sustainability report is 75.6% where 34 observations can be predicted correctly and 11 observations that have errors. Overall, classification results for logistic regression showed the percentage of classification accuracy was 78.9%.

Hypothesis Testing

The logistic regression model can be formed by looking at the estimated value of the parameters in Variables in The Equation in the logistic regression model table that is formed based on the estimated value of the parameters in the Variables in The Equation, as follows

Table 1. Logistic Regression Test

Classification Table

Observed			Predicted		
			Company Category		Percentage Correct
			Not Publish *Sustainability Report*	Publish *Sustainability Report*	
Step 1	Company Category	Not Publish *Sustainability Report*	37	8	82.2
		Publish *Sustainability Report*	11	34	75.6
	Overall Percentage				78.9

a. The cut value is .500

Source: Data processed 2019

SR = -63,214 + 1,582 CR - 0,254 DER - 3,737 ROA + 2,119 TA

Conlusion drawn on hypothesis testing are based on a significance level of 0.05. If the level of significance is greater than 0.05, it can be said that Ho is accepted, which means that the variable does not affect the disclosure sustainability report. If the significance value is less than 0.05, it means that the variable influences the disclosure of sustainability report. Furthermore, positive or negative effects are indicated by the regression coefficient. If the regression coefficient is positive then it shows a positive effect and if the coefficient is negative then it shows a negative effect. Hypothesis testing results are as follows:

First Hypothesis Testing (H1)

Table 2. Effects of Liquidity on *Sustainability Report*

Significance Benchmark	Significance Calculate	Value β	Conclusion
0.05	0.011	1.582	Ho rejected

Source: Data processed 2019

The first hypothesis states that Liquidity has a positive effect on the disclosure of sustainability reports. The test results shown in the table above show the liquidity variable which is proxied by Current Ratio and has a positive regression coefficient of 1.582 with a level significance of 0.011 which is smaller than α (5%). Based on this it can be concluded that Ho is rejected which means that the liquidity variable influences the disclosure of sustainability reports. The effect of the variable liquidity moves in the same direction as the disclosure sustainability report, if liquidity is greater then the level of disclosure on sustainability report also higher, and if liquidity is lower then the level of disclosure on sustainability report will also be lower.

Second Hypothesis Testing (H2)

Table 3. Effects of *Leverage* on *Sustainability Report*

Significance Benchmark	Significance Calculate	Value β	Conclusion
0.05	0.160	-0.254	Ho accepted

Source: Data processed 2019

The second hypothesis states that leverage has a negative effect on disclosure of sustainability reports. The test results shown in table 5.19 show the variable leverage proxied by Debt to Equity Ratio has a negative regression coefficient of 0.254 with a significance level of 0.160 which is greater than α (5%). Based on this, it can be concluded that Ho is accepted which means the variable leverage does not affect the disclosure sustainability report.

Third Hypothesis Testing (H3)

Table 4. Profitability Influence on *Sustainability Report*

Significance Benchmark	Significance Calculate	Value β	Conclusion
0.05	0.158	-3.737	Ho accepted

Source: Data processed 2019

The third hypothesis states that profitability has a negative effect on the disclosure sustainability report. The test results shown in the table above show the profitability variable which is proxied by Return on Assets has a negative regression coefficient of 3.737 with a significance level of 0.158 which is greater than α (5%). Based on this it can be concluded that Ho is accepted which means profitability variable does not affect the disclosure sustainability report.

Fourth Hypothesis Testing (H4)

Table 5. Effect of Company Size on *Sustainability Report*

Significance Benchmark	Significance Calculate	Value β	Conclusion
0.05	0,000	2,119	Ho rejected

Source: Data processed 2019

The fourth hypothesis states that company size has a positive effect on disclosure sustainability reports. The test results shown in the table above shows that the company size variable that is proxied by Total Assets has a positive regression coefficient of 2.119 with a level significance of 0.000 that is smaller than α (5%). Based on this it can be concluded that Ho is rejected, which means the company size variable influences the disclosure of sustainability reports. The effect of company size variables moves in the same direction as the disclosure sustainability report, if the size of the company gets bigger then the level of disclosure on sustainability report also higher, and if the size of the company gets lower then the level of disclosure on sustainability report will also be lower.

Discussion

Table 6. Hypothesis Testing Results with Logistic Regression Summary

Information	Sig. Bench-mark	Sig. Calcu late	Value β	Conclusion
Liquidity	0.05	0.011	1.582	Influential Positive
Leverage	0.05	0.160	-0.254	No Influential
Profitability	0.05	0.158	-3.737	No Influential
Company Size	0.05	0.000	2.119	Influential Positive

Source: Data processed 2019

CONCLUSION

Based on theoretical description and the analysis that has been done, the researchers conclude that liquidity has a positive effect on the disclosure of sustainability reports. Leverage does not affect the sustainability report disclosure. Profitability does not affect the sustainability report disclosure. Company size has a positive effect on sustainability report disclosure.

REFERENCES

Almilia, L.S. (2008), Faktor-Faktor Yang Mempengaruhi Pengungkapan Sukarela “Internet Financial And Sustainability Reporting”. Jurnal Akuntansi dan Auditing Indonesia, Vol. 12, No. 2.

Elkington, John. (1998). Cannibals With Forks: The Triple Bottom Line in 21st Century Business. Gabriola Island, BC: New Society Publishers.

Fahmi, Irham. (2010). Pengantar Manajemen Keuangan Teori dan Soal Jawab. Bandung: Alfabeta.

Freeman, R. Edward. (1984). Strategic Management: A Stakeholder Approach. University of Minnesota: Pitman Publishing.

Ghozali, Imam & Chariri, Anis. (2007). Teori Akuntansi. Semarang: Badan Penerbit Universitas Diponegoro.

Global Reporting Initiative. (2013). Sustainability Reporting Guidelines.

Luthfia, Khaula. (2012). Pengaruh Kinerja Keuangan, Ukuran Perusahaan, Struktur Modal dan Corporate Governance terhadap Publikasi Sustainability Report (Studi Empris terhadap Perusahaan-Perusahaan yang Listed (Go Public) di Bursa Efek Indonesia (BEI) Periode 2007-2010). Universitas Diponegoro.

Rachmawati, Rima. (2007). Tinjauan Teoritis: Penerapan Pengungkapan Tanggungjawab Sosial dalam Laporan Tahunan. Jurnal Bisnis, Manajemen dan Ekonomi. Vol. 8, No. 4

Republik Indonesia. (2007). Undang-Undang No. 40 Tahun 2007 Tentang Perseroan Terbatas. Lembaga Negara RI Tahun 2007, Nomor 40. Sekretariat Negara. Jakarta.

Santoso, Singgih. (2010). Statistik Parametrik: Konsep dan Aplikasi dengan SPSS. Jakarta: PT. Elex Media Komputindo.

Sekaran, Uma & Bougie, Roger. (2017). Metode Penelitian untuk Bisnis. Jakarta: Salemba Empat.

Silviana & Melisa. (2014). Analisis Kinerja Keuangan Pemerintah Kota Bandung. PROFITA, Komunikasi Ilmiah Akuntansi dan Perpajakan, Vol. 6, No. 3.

Soelistyoningrum, J. N. (2011). Pengaruh Sustainability Report terhadap Kinerja Keuangan (Studi Empiris pada Perusahaan yang Terdaftar Dalam Bursa Efek Indonesia). Universitas Diponegoro.

Sugiyono. (2014). Metode Penelitian Kuantitatif, Kualitatif, dan Kombinasi (Mixed Methods). Bandung: Alfabeta.

Triana, Devi. (2017). Pengaruh Ukuran Perusahaan dan Profitabilitas terhadap Manajemen Laba. Universitas Widyatama.

Weber, O., Koellner, T., Habegger, D., Steffensen, H. and Ohnemus, P. (2008). The relation between the GRI indicators and the financial performance of firms, Progress in Industrial Ecology. An International Journal, Vol. 5, No. 3, pp.236–254.