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THE EFFECT OF SUSTAINABILITY REPORT DISCLOSURE ON FINANCIAL AND MARKET PERFORMANCE IN INDONESIAN COMPANIES

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ABSTRACT

This study purpose to provide empirical evidence about the effect of sustainability report disclosures on financial and market performance. The object of research is a company that publishes sustainability reports that join the Indonesia Stock Exchange in the period 2014-2016. The sampling technique uses purposive sampling method. The dependent variable used in this study is financial performance as measured by return on assets, return on equity and current ratio, and market performance as measured by Tobin's Q, while the independent variable is SRDI. The hypothesis was tested using manova. The results of this study, the first hypothesis which states that sustainability report disclosure does not have a positive effect on financial performance, and the second hypothesis states that sustainability report disclosure does not affect market performance. This is because the company that publishes sustainability report in Indonesia is still relatively small, due to the inconsistency of the company in issuing sustainability reports every year, therefore, it is necessary for the government to urge and mobilize so that more companies consistently publish sustainability reports every year.

KEY WORDS

Sustainability report, finance, performance, market.

Sustainability report has experienced an increase in business and academia (Hahn and Kühnen, 2013). Especially for large companies in Indonesia that have begun to be proactive in disclosing their company's sustainability information. Sustainability reports have the potential to improve the quality of information from doubts so that company information can produce reliable information, comparability and materiality. The Global Reporting Initiative (GRI), introduces a guideline for sustainability disclosure (GRI, 2006) so that it can encourage companies to provide more transparent, complete and balanced reports (Hahn and Kühnen, 2013).

Changes in views and paradigms in the business environment require companies that want to compete must be more transparent in disclosing information so that it can support the decision making process. Stakeholders needs will be information on company performance from year to year increasing. This information does not only include quantitative information, but also qualitative information. In Indonesia sustainability report is still voluntary, which means that there are no specific rules that require, but only voluntary and not obligatory, even though this disclosure is not required, but one side there is a demand for companies to provide more transparent and accountable information.

Sustainability report is a report containing information on the company's performance in the economic, social and environmental fields. Sustainability report is a moral agent for the company by conducting "activities" and "interaction" with the community, so that it can foster a sense of responsibility towards the environment. Sustainability reports are prepared based on the standards of GRI reporting, GRI reporting standards are a standard that can be used as a reference and intended as a general acceptable framework in reporting the economic, environmental and social performance of a company (GRI, 2006).

Research in Indonesia regarding sustainability report has inconsistent results. Dewi's research (2015) also shows that there is a positive influence on sustainability report as measured by the sustainability report disclosure index (SRDI) on return on assets, but not in

accordance with the results of research by Susanto and Tarigan (2013) & Lesmana and Tarigan (2014) states that the disclosure of sustainability performance has a negative effect on return on assets due to expenditure for sustainability activities, thereby reducing the company's profit. Natalia (2014) in her research divides the dimensions of sustainability report into three main parts, namely economic, environmental, and social, it also shows that the economic dimension of the sustainability report does not affect financial performance, but the environmental and social dimensions have an effect even though the influence is negative.

Researchers want to focus more on conducting research on testing the impact of sustainability reporting on the company's financial and market performance. Researchers used a sample of publicly listed companies listed on the IDX, which published Sustainability Report in the period 2014 to 2016. Susanto and Tarigan (2013) research, with ROA as the dependent variable. Ramadhani (2016), with the dependent variable ROA, Current Ratio and DPR. So from the two studies I decided to choose (ROA, ROE, Profit Margin, DER and Current Ratio) as a measure of financial performance, while to measure market performance using Tobin's Q.

Researchers chose financial performance as the dependent variable because prospective investors are not only see the social performance listed in the sustainability report only, but also very focused on financial performance, not only that, with the financial performance of investors can know the development of the company's financial performance from time to time, in addition investors can find out whether there is an increase or decrease in solvency, liquidity and stability profitability for companies that publish the sustainability report. In this study the researcher chose 4 variables that represent each of these ratios which are used to measure the level of company performance, namely ROA, ROE, and Current Ratio. While in terms of market performance researchers chose to measure market performance using Tobin's Q, because according to Safitri & Fidiana (2014) one of the best information that can be used to measure market performance is Tobin's Q. The purpose of this study is to find out whether Sustainability report disclosures affect the company's financial performance, as well as to find out whether sustainability report disclosures affect market performance.

THEORY AND DEVELOPMENT OF HYPOTHESIS

Legitimacy theory is a theory that focuses on the interaction between a company, community and social environment (Ghozali and Chariri, 2007). Supported by the opinion of Safitri & Fidiana (2014) who said that legitimacy theory is a theory that provides an explanation that every company operates in an external environment that changes constantly and they try to ensure that their behavior is in accordance with the limits and norms of society. Another opinion also states that legitimacy theory is social media between companies and communities that operate in economic activities. Ghozali and Chariri (2007) the concept of social contact is that all organizations operate in the midst of society through social contracts - both explicit and implicit based on two things, namely: 1) the end result to a broad community; 2) benefits from economic, social or political aspects to groups according to the power they have.

Stakeholder theory is a theory that can give an insight to whichever side of the company responsible for the operations of his company (Freeman, 2010). The company must maintain its relationship with stakeholders by accommodating the wants and needs of stakeholders, especially stakeholders who have power over the availability of resources used for the company's operational activities, such as labor, markets, etc. (Chariri and Ghozali, 2007).

Stakeholders' interests are considered very important for the company, therefore various efforts to provide satisfaction to stakeholders are carried out by the company, this is due to: 1) environmental issues that can interfere with the quality of life of the community, 2) the era of globalization that encourages trade in products that are environmentally friendly, 3) investors tend to choose companies that care about social environmental policies around

the company, and 4) a lot of criticism of companies that are less concerned about the environment by the community and NGOs and environmentalists (Dewi, 2015).

Hypothesis Development:

Information contained in sustainable economic dimension reports can ensure the potential of competitive capital resources with a low level of risk to stakeholders. Cahyandito (2010) in his research he found a result that reporting economic performance in sustainable reports has the potential to increase corporate transparency which will have an impact on increasing investor confidence and financial performance. This is confirmed by the results of Safitri & Fidiana's (2014) study showing a positive effect on financial performance. Based on the study above, the first hypothesis can be formulated as follows.

H1: Sustainability report disclosure has a positive effect on financial performance.

To be able to find out how the market value of the company, in this study the market performance in this study was measured using the Tobin "s Q, ratio this ratio can be used to see a reflection of the company's market conditions in the future. In a condition when the company has a value greater than the previous base value, the company can have a fee to increase the company's financial condition again, and profit is also likely to be obtained. Based on Tobin's thinking that the inventor of the formula called Tobin'Sq, said that the incentive to make new investment capital is high when securities (stocks) that provide future benefits can be sold at prices higher than the investment costs Safitri & Fidiana (2014). In research, especially in the economic field, most research uses Tobin's Q as a value-added measure of "Marginal Q" to explain a company's investment decision, which is based on profit margins. Companies with high disclosure values sustainability report will have a more positive market reaction compared to companies with low disclosure quality. This is supported by the research of Safitri & Fidiana (2014) which shows that sustainability reporting has a positive effect on financial performance. Based on the study above, the first hypothesis can be formulated as follows.

H2: Sustainability report disclosure has a positive effect on market performance.

METHODS OF RESEARCH

This research is quantitative research, with a population of companies listed on the IDX (Indonesia Stock Exchange) which publishes sustainability reports in 2014-2016. Researchers use the data obtained through www.idx.co.id and on the web of each company. Researchers used purposive sampling method in the selection of samples, with the following criteria: 1.) Publish annual reports completed during 2014-2016; 2.) Publish sustainability reports or disclose other social responsibility information in 2014-2016; 2.) Having complete data related to the variables used in the study; 3.) Companies that publish financial statements for seven consecutive years 2014-2016.

The dependent variable is financial and market performance. Financial performance is measured using ROA proxy, ROE, Current Ratio, and market performance measured by Tobin's Q.. The following is the formula used to measure ROA.

$$\text{Return On Assets} = \frac{\text{After - Tax Net Income}}{\text{Total Asset}}$$

In this study the liquidity ratio used is the current ratio (CR) is a ratio that measures a company's ability to meet its short-term obligations to short-term creditors. Use of the current ratio in this study because if the company has current ratio a high, then it can be said that the company is also able to meet its short-term debt which indirectly indicates that the company also has good financial performance. Current ratio is calculated by dividing assets current with current liabilities. The current ratio can be formulated as follows (Safitri & Fidiana, 2014).

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Return on Equity (ROE) is one of the proxies of financial ratios of profitability from the shareholders' point of view, this ratio is a ratio that shows the company's ability to generate profits with its own capital, so that there is ROE which refers to the profitability of its own capital. Return on Equity is a financial analysis tool to measure profitability. The greater ROE reflects the company's ability to generate high profits for shareholders. Then the formula for calculating ROE is:

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Total Own Capital}} \times 100\%$$

In this study the market performance ratio with Tobin's Q. Tobin's Q is the ratio used to find out how much the performance measurement by the company. Tobin's Q is the ratio used to assess the extent to which the market assesses a company from aspects seen by outsiders including investors. The following is the formula for measuring Tobin's Q (Safitri & Fidiana, 2014).

$$\text{Tobin's Q} = \frac{(\text{MVS} + \text{D})}{\text{TA}}$$

Where: MVS = Market Value of all outstanding shares; D = Debt; TA = Total Assets.

Debt is the amount of the market obligation value, where this value can be calculated using the following equation:

$$\text{D} = (\text{AVCL} - \text{AVCA}) + \text{AVLD}$$

Where: AVCL = Accounting Value of the firm's Current Liabilities (Short Term Debt + Taxes Payable); AVCA = Accounting value of the firm's Current Assets (Cash + Account Receivable + Inventories); AVLTD = Accounting Value of the firm's Long Term Debt (Long Term Debt).

In this study the independent variables used are sustainability report. This variable is measured through the Sustainability report Disclosure Index (SRDI). Sustainability report is a report disclosed by the company relating to social activities carried out by the company covering several themes: Economic, Environmental, Human Rights, Labor Practices & Decent Work, Society and Product Responsibility (GRI-G4 Guidelines). After being measured using SRDI calculations, then give a score of 1 if the item is disclosed and 0 if not disclosed as an assessment. After being scored on all items, the score is then added to get the overall score for each company. RSDI calculation formula is as follows (Safitri & Fidiana, 2014)

$$\text{SRDI} = \frac{\text{V}}{\text{M}}$$

Where: SRDI = Sustainability reportDisclosure Index Company; V = Number of Items Disclosed by the Company; M = Number of Items Expected.

SRDI that has been calculated is then grouped based on the extent of its disclosure that is by dividing the company based on the level of disclosure into 3 levels. The three groups are the level of disclosure level: low is 1, is rated 2 and high with value 3. The technique used in testing hypotheses is the Manova test. Manova is a technique for measuring differences between two or more dependent metric variables based on a categorical (nonmetric) variable that acts as an independent variable. According to Ghazali (2007), manova is a statistical technique used to calculate the significance of differences between groups for two or more dependent variables. This technique is useful for analyzing variables depending on more than two intervals or ratios. By using the sig level ($\alpha = 5\%$), if the results obtained are less than the specified significance ($\alpha = 5\%$) then the independent variable has a significant effect on the dependent variable.

RESULTS AND DISCUSSION

Researchers tested the hypothesis using the Between-Subjects Effect manova test. Independent variables can be said to affect the dependent variable, if the results of the Between-Subject Effect test is obtained with a significant value < 0.05 , and vice versa if the results of the Between-Subject Effect test is obtained with a significant value > 0.05 , then the independent variable has no effect on dependent variable. Following are the results of hypothesis testing:

Table 1 – Tests of Between-Subjects Effects

		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power ^e
Corrected Model	ROA	,065 ^a	2	,033	2,244	,109	,022	4,488	,454
	Current Ratio	Source	2	20,518	11,138	,000	,099	22,277	,991
Intercept	ROE	2680,540 ^c	2	1340,270	5,409	,005	,051	10,818	,841
	Tobin'sQ	,182 ^d	2	,091	,568	,568	,006	1,135	,143
	ROA	,258	1	,258	17,770	,000	,080	17,770	,987
	Current Ratio	96,235	1	96,235	52,243	,000	,205	52,243	1,000
SRDI	ROE	548,141	1	548,141	2,212	,138	,011	2,212	,316
	Tobin'sQ	,433	1	,433	2,706	,102	,013	2,706	,374
	ROA	,065	2	,033	2,244	,109	,022	4,488	,454
	Current Ratio	41,035	2	20,518	11,138	,000	,099	22,277	,991
Error	ROE	2680,540	2	1340,270	5,409	,005	,051	10,818	,841
	Tobin'sQ	,182	2	,091	,568	,568	,006	1,135	,143
	ROA	2,948	203	,015					
	Current Ratio	373,939	203	1,842					
Total	ROE	50300,430	203	247,785					
	Tobin'sQ	32,514	203	,160					
	ROA	5,282	206						
	Current Ratio	1117,311	206						
Corrected Total	ROE	65970,017	206						
	Tobin'sQ	38,255	206						
	ROA	3,013	205						
	Current Ratio	414,975	205						
	ROE	52980,971	205						
	Tobin'sQ	32,696	205						

a. R Squared = ,022 (Adjusted R Squared = ,012)

b. R Squared = ,099 (Adjusted R Squared = ,090)

c. R Squared = ,051 (Adjusted R Squared = ,041)

d. R Squared = ,006 (Adjusted R Squared = -,004)

e. Computed using alpha = ,05

In table 3, the results of the Between-Subjects Effect test show that the significance value of return on assets (ROA) is 0.109. And the significance value of the current ratio is 0,000. As well as return on equity (ROE) of 0.005. While the significance value of Tobin's Q is 0.568. Based on the significance value of the Between-Subjects Effect test results it can be seen that the dependent variable has a significance value < 0.05 is ROE and Current Ratio.

This shows that financial performance is influenced by good sustainability report disclosure measured by return on equity (ROE) and current ratio (CR). However, in terms of market performance shows that market performance as measured by Tobin's Q does not affect the sustainability report disclosure.

To be able to see the direction of the influence of sustainability report disclosures on financial performance and market performance, it can be seen from the results of the post hoc test. Post hoc test is also used to determine the significant differences between the dependent variables in each category of independent variables. In this Post hoc test using the Turkey HSD model. the following:

Table 2 – Multiple Comparisons

Dependent Variable				Mean Differenc e (I-J)	Std. Error	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Current Ratio	Tukey HSD	Level 1	Level 2	-1,0907	,80929	,371	-3,0014	,8201
			Level 3	-,0107	,79100	1,000	-1,8783	1,8569
		Level 2	Level 1	1,0907	,80929	,371	-,8201	3,0014
			Level 3	1,0800 [*]	,22933	,000	,5385	1,6214
		Level 3	Level 1	,0107	,79100	1,000	-1,8569	1,8783
			Level 2	-1,0800 [*]	,22933	,000	-1,6214	-,5385
ROE	Tukey HSD	Level 1	Level 2	1,5422	9,38624	,985	-20,6190	23,7034
			Level 3	-7,0764	9,17406	,721	-28,7367	14,5839
		Level 2	Level 1	-1,5422	9,38624	,985	-23,7034	20,6190
			Level 3	-8,6186 [*]	2,65981	,004	-14,8985	-2,3387
		Level 3	Level 1	7,0764	9,17406	,721	-14,5839	28,7367
			Level 2	8,6186 [*]	2,65981	,004	2,3387	14,8985

Source: SPSS data processed.

Post hoc test, sustainability report disclosures have been made based on ranks from 1 to 3. The higher the ranking shows the higher sustainability report disclosure in a company. Post hoc test results in table 4 above show financial performance on the proxy return on equity (ROE) & current ratio (CR) of each SRDI category. In terms of financial performance on the proxy current ratio (CR) of each SRDI category. This significant difference can be seen in level 2 SRDI disclosure with level 3 which shows a significance value of 0,000. Judging from the difference in average current ratio (CR) of each ranking shows that in categories 2 and 3 shows the difference of 1.0800 which means the current ratio (CR) in rank 2 is higher than 3, so it can be concluded that the sustainability report disclosure negative effect on the company's financial performance measured by the current ratio (CR).

On the ROE side, this significant difference can also be seen in level 2 SRDI disclosures with level 3 which shows a significance value of 0.004. Judging from the difference in average return on equity (ROE) from each ranking shows that in categories 2 and 3 shows a positive result of 8.6186, which means that return on equity (ROE) in rank 3 is higher than 2 that means the group of companies in rank 3 had the highest average return on equity (ROE) compared to other groups, so it can be concluded that sustainability report disclosure has a positive effect on the company's financial performance as measured by return on equity (ROE).

DISCUSSION OF RESULTS

The results of the data processing as listed in table 3 in the Between-Subject Effect test, shows that financial performance is influenced by sustainability report disclosure both measured by ROE and CR. In this study shows that the significance level of ROE is 0.005, while for CR is 0.000. The significance level used in this study is <0.05. Because the significance value of ROE and CR in this study <0.05 so that the sustainability report disclosure means that it affects the financial performance. But on the other hand these results also show that the financial performance of the ROA proxy is not affected by the sustainability report disclosure. So it can be concluded that the sustainability report disclosure does not affect financial performance.

The results of the Past Hoc Test on the ROE proxy generate a difference in the level of significance, the value of the significance difference can be seen in the level 2 SRDI disclosure with level 3 which shows a significance value of 0.004. Judging from the average difference in return on equity (ROE) shows a positive result of 8.6186, which means that return on equity (ROE) in rank 3 is higher than 2. Judging from the proxy current ratio (CR), the significance difference can be seen in Level 1 and level 2 SRDI disclosures that show a significance value of 0,000. Judging from the difference in average current ratio (CR) shows

the difference of 1.0800 which means the current ratio (CR) in rank 1 is higher than 2, so that means that sustainability report disclosure has a positive effect on the company's financial performance as measured by ROE, and negative effect on the company's financial performance measured by the current ratio (CR).

The results of this study are reinforced by the research of Sejati & Pratiwi (2015) which states that there is a significant positive relationship between social performance and company performance. Burhan & Rahmanti (2012) also stated that liquidity (current ratio) does not have a positive relationship with the quality of disclosure of voluntary interest in public companies in Indonesia. Disclosure of suker is a form of additional reporting carried out by the company for the formation of corporate image as well as the disclosure of social and environmental information through the sustainability report. The same thing was also obtained by Burhan & Rahmanti (2012) that the liquidity variable does not affect the completeness of both mandatory and voluntary reporting reported by the company, reinforced by the research of Ramadhani (2016) which states that sustainability performance does not affect the profitability of the company.

The results of the data processing in the Between-Subject Effect test, shows that market performance is not influenced by sustainability report disclosures either measured by Tobin's Q. In this study shows that the level of significance of Tobin's Q is 0.568. The significance level used in this study is <0.05 . Because the value of Tobin's significance in this study > 0.05 so that means that it can be concluded that sustainability report disclosure does not affect the market performance.

This is probably due to the fact that the company that publishes sustainability report is not consistent every year, besides that not all companies listed on the BEI issue sustainability reports so that the company that publishes sustainability reports consistently every year is still relatively small. Besides that because of the unavailability of data that is on the company's web, sometimes the company's web cannot be accessed, sometimes the company's web is also an error. In this case there are also several companies that publish sustainable reports but not based on the GR4 index. Based on this, there are several reasons why there is no significance to the results of the research.

The results of this study are supported by the research of Gordon, Lockwood, Schirmer, Vancly, & Hanson (2013) which examined in two countries, namely in Australia and New Zaland, the results of their study stated that sustainability reporting disclosures carried out by companies in Australia affect abnormal returns, but when in the same case this research was carried out with a sample of companies in New Zealand, the results had no effect.

CONCLUSION

Conclusion of this study as follows, sustainability report disclosure has a significant positive effect on financial performance on ROE and Curent Ratio proxies, while the ROA proxy shows the results of no significant influence. So that the first hypothesis proposed in this study is not proven. The results in the Between-Subject Effect test show that ROE and current ratio get significant results. In the post hoc test, ROE shows that ROE has a positive effect while the current ratio has a negative effect. that means that sustainability report disclosure does not have a significant positive effect on the company's financial performance. These results are also supported and reinforced by research Susanto and Tarigan (2013) stated that environmental performance is positively related but not significant to financial performance in terms of profitability ratio.

The second hypothesis shows the results that sustainability reporting has no significant positive effect on market performance. This is probably due to the fact that the company that publishes sustainability report is not consistent every year, besides that not all companies listed on the BEI issue sustainability reports so that the company that publishes sustainability reports consistently every year is still relatively small. Besides that because of the unavailability of data that is on the company's web, sometimes the company's web cannot be accessed, sometimes the company's web is also an error. In this case there are also several

companies that publish sustainable reports but not based on the GR4 index. Based on this, there are several reasons why there is no significance to the results of the research, and reinforced by research Ramadhani (2016) which states that sustainability performance does not affect the profitability of the company.

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