
The Impact of Sustainability Report Disclosure on Financial Performance

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ABSTRACT

This study aims to analyze the effect of sustainability report disclosure, which includes economic, environmental, and social aspects, on financial performance using Return On Asset (ROA). The study population is mining companies listed on the Indonesia Stock Exchange (IDX) and disclosed sustainability reports for the 2019-2022 period. Using a purposive sampling technique, 13 companies were selected that met the criteria, resulting in 52 samples. This study uses a quantitative approach with multiple linear regression methods and is processed using SPSS 26. The results of the study indicate that overall, sustainability report disclosure on economic, environmental, and social aspects does not affect the company's financial performance (ROA). This indicates that sustainability report transparency has not been a major factor in increasing the profitability of mining companies in Indonesia.

Keywords: Sustainability report, EcDI, EnDI, SoDI, Return On Assets

INTRODUCTION

Company performance is a picture of the condition of a company during a certain period. The result of the company's operational activities that utilize its resources is its performance. The term performance is often associated with the company's financial situation. Financial performance can provide an overview of the company's prospects in the future, where the greater the company's financial performance, the easier it will be for the company to achieve its goals (Putri and Wuryani 2020). Financial performance is a comprehensive evaluation of the company related to assets, liabilities, equity, costs, and income. Measuring financial performance aims to set standards or achievements for a company.

The company's financial performance is measured by the Return On Asset (ROA) ratio. Return On Asset (ROA) is one of the financial ratios used to measure the ability to generate profits from the assets used. Munawir (2007:33) states that rentability or profitability is to show the company's ability to generate profits during a certain period. ROA is a financial ratio that

is often used to assess the financial success of a company.

In addition to focusing on maximizing profits or earnings, companies must also pay attention to the potential impact of environmental damage and social issues. In line with the times, the demands of stakeholders related to environmental and social issues have encouraged companies to direct their attention to long-term development. Companies that used to only compete to gain profits and aim to obtain large profits are now starting to be interested in company performance to manage sustainability.

Currently, companies are no longer guided by the Single Bottom Line concept, but have shifted to the concept introduced by Elkington (1997), namely the Triple Bottom Line which emphasizes 3P, namely Profit, People, and Planet. This concept states that companies do not only focus on profit, but must also pay attention to the welfare of the surrounding community (people) and play an active role in preserving the environment (planet) for the sake of resource sustainability. This triple bottom line

concept is used by companies in making their sustainability reports.

Many companies are now increasingly aware of the importance of disclosing sustainability reports. According to Ernst and Young (2013), disclosure of sustainability reports has become an important aspect for every organization. Research by Dhaliwal et al. (2011) found that out of 7000 sustainability reports studied, many organizations use sustainability reports to predict the market value of the organization. Non-financial information is also included in the sustainability report in addition to financial performance data. Research conducted by Tomo (2011) shows that interest in business value remains even though only financial aspects are considered. There has been a major shift in the market value of organizations over time, where in 1975 financial factors contributed 83% of the company's market value, while non-financial factors only accounted for 17%. However, according to statistics in 2009, only 19% of the market value of organizations is based on financial factors, while the remaining 81% depends on non-financial factors. This shows a significant change in market value.

In Indonesia, currently there are still not many companies that disclose their company's sustainability performance in sustainability reports. Disclosure of sustainability reports in Indonesia can be supported by the Statement of Financial Accounting Standards (PSAK) No. 1 paragraph nine stating "The company can also present additional reports such as environmental reports and value added statements, especially for industries where environmental factors play an important role and for industries that consider employees as a group of report users who play an important role". From this statement, it can be concluded that the Sustainability Report is still recommended for companies that want to prepare the report.

Sustainability reportis still voluntary, perhaps this is the reason why

there are still few companies that implement it. In addition, many companies are still hesitant to convey information related to economic, environmental, and social aspects because they are worried about getting a negative response from their stakeholders (Bartlett, 2012). This is different from what happened in several countries such as Sweden, the Netherlands, Japan, America, South Africa, and China in these countries the local government has required every company, both state-owned companies and public companies to make a sustainability report.

Manufacturing companies are companies that process raw materials into finished goods by involving various sources of raw materials, production processes, and technologies that certainly have a significant contribution to social issues. The mining sector has a responsibility to manage its environmental and social aspects, in accordance with the provisions stated in Law Number 32 of 2009 concerning Environmental Protection and Management (Simbolon and Sueb, 2016). This is due to the close interaction between manufacturing companies and the community. Therefore, it can be interpreted that manufacturing companies, especially in the mining sector, have a close relationship with the social and environmental aspects around them. This means that manufacturing companies have the widest reach in terms of stakeholders so that it is not uncommon for manufacturing companies to disclose Sustainability Reports in accordance with Law Number 40 of 2007 on Limited Liability Companies (PT).

The mining sector in Indonesia is in the public spotlight, especially because of its operational methods. This is because in its operational processes, the mining sector often exploits natural resources, including natural resources that cannot or are difficult to renew, such as oil, coal, gold, and others. This is contrary to the concept of sustainable development which emphasizes the sustainability of meeting the needs of the current generation without sacrificing the

ability of future generations to meet their needs. An interesting aspect here is how mining companies can manage their operations ethically by utilizing natural resources as a source of income.

Indonesia has also experienced the impact of social and environmental events due to corporate negligence. The Mining Advocacy Network (Jatam) 2019, stated that there were 164 mineral and coal mining concessions spread across 55 small islands. This condition has resulted in a number of environmental damages on small islands touched by mining giants. This condition has resulted in the loss of clean water sources for residents because they have been polluted so that farmers' livelihoods are lost. Then, distribution activities carried out by coal mining companies through sea routes have also disrupted the marine ecosystem which has disrupted the livelihoods of fishermen whose activities are at sea looking for fish. This phenomenon certainly has a negative impact on many parties, especially the community who feel the impact directly and investors because public trust in the company has decreased.

The granting of Forest Area Borrow-Use Permits (IPPKH) states that for corporations in the mining sector it is also larger than the Forest Area Borrow-Use Permits (IPPKH) for non-mining needs. An area of 343 thousand hectares of IPPKH for mining while for non-mining only 36 thousand hectares. IPPKH for mining is also far from the data on Mining Business Permit (IUP) concessions in Forest Areas which reach 4.5 million hectares. It is suspicious that this mining company operates without IPPKH, (Adam, Abdul, et al WALHI 2022).

Along with the development of sustainable development, companies are

increasingly aware of the importance of disclosing reports that not only cover financial aspects, but also information related to social and environmental issues, called sustainability reports. This sustainability report is made following the Global Reporting Initiative (GRI) standard guidelines and is separated from financial reports or annual reports (Ratnasari, 2011).

The GRI Standards are a global best practice for publicly reporting economic, environmental, and social impacts. Sustainability reporting developed based on the GRI Standards provides information about an organization's positive or negative contribution to sustainable development (GRI, 2016). At the same time, governments, stock exchanges, markets, investors, and the wider community are asking companies to be transparent about their sustainability objectives, performance, and impacts. The Global Reporting Initiative (GRI) standards were first launched in October 2016. These standards are designed to provide guidance for organizations in reporting their economic, environmental, and social impacts in a transparent and consistent manner. The launch of the GRI Standards replaces the previous guidelines, namely the G4 Sustainability Reporting Guidelines, and aims to improve the quality and usefulness of sustainability reports prepared by organizations. The following is the report data that includes sustainability reports and financial ratios measured using Return On Asset (ROA). This sustainability report is divided into three aspects: Economic, Environmental, and Social, which are reported in 2019-2022.

Table 1 Sustainability Report Disclosure Index (SRDI) Data in the Mining Sector Listed on the Indonesia Stock Exchange in 2018

Company Code	Sustainability Report Disclosure Index (SDRI) Components		(SRDI) Sustainability Report	(ROA) Return
		Sustainability Report		

	Year	EcDI (Economic Disclosure Index)	EnDI (Environmental Disclosure Index)	SodI (Social Disclosure Index)	Disclosure Index	On Asset
ADARO	2019	0.43	0.71	0.74	0.33	5.37
	2020	0.43	0.71	0.76	0.34	1.55
	2021	0.75	0.62	0.43	0.19	14.59
	2022	0.5	0.59	0.58	0.26	27.11
EARTH	2019	0.31	0.53	0.46	0.2	0.17
	2020	0.31	0.53	0.41	0.18	-9.9
	2021	0.37	0.65	0.64	0.28	5.28
	2022	0.87	0.71	0.74	0.33	12.41
GOD	2019	0.68	0.21	0.53	0.24	0.63
	2020	0.68	0.21	0.58	0.26	0.42
	2021	0.31	0.46	0.48	0.21	0.26
	2022	0.43	0.65	0.61	0.27	-3.07
INDY	2019	0.37	0.34	0.25	0.11	-0.46
	2020	0.37	0.34	0.23	0.1	-3.37
	2021	1	0.93	0.92	0.41	1.72
	2022	1	0.96	0.92	0.41	14.21
ITMG	2019	0.12	0.12	0.12	0.05	10.61
	2020	0.25	0.5	0.3	0.13	2.73
	2021	0.37	0.81	0.33	0.14	27.71
	2022	0.56	0.87	0.69	0.31	46.21
PTBA	2019	0.5	0.59	0.41	0.18	14.73
	2020	0.62	0.75	0.79	0.35	9.35

	2021	0.5	0.68	0.48	0.21	20.97
	2022	0.93	0.87	0.92	0.41	20.15
PTRO	2019	0.43	0.34	0.25	0.11	5.49
	2020	0.62	0.59	0.58	0.26	5.57
	2021	0.5	0.31	0.61	0.27	6.94
	2022	0.5	0.62	0.58	0.26	6.36
ELSA	2019	0.12	0	0.07	0.03	0.51
	2020	0.12	0.12	0.07	0.03	3.35
	2021	0.31	0.12	0.46	0.2	1.55
	2022	0.18	0.25	0.25	0.11	4.45
MEDC	2019	0.37	0.12	0.33	0.14	-0.62
	2020	0.43	0.21	0.28	0.12	-3.79
	2021	0.31	0.21	0.28	0.12	1.49
	2022	0.93	0.71	0.87	0.39	8.49
ANTM	2019	0.18	0.46	0.41	0.18	-0.03
	2020	0.31	0.56	0.61	0.27	3.07
	2021	0.5	0.46	0.66	0.29	6.68
	2022	0.5	0.81	0.87	0.39	11.31
INCO	2019	0.37	0.37	0.43	0.19	2.61
	2020	0.56	0.56	0.51	0.22	3.4
	2021	0.56	0.78	0.53	0.24	6.76
	2022	0.93	0.93	0.89	0.4	7.54
MDKA	2019	0.8	0.21	0.07	0.03	6.49
	2020	0.18	0.28	0.12	0.05	4.45

	2021	0.25	0.53	0.35	0.16	2.61
	2022	0.5	0.78	0.53	0.24	1.67
TINS	2019	0.56	0.53	0.51	0.22	-3.46
	2020	0.43	0.4	0.53	0.24	-2.64
	2021	0.5	0.34	0.66	0.29	9.31
	2022	9.93	1	1	0.44	9.1

Source: www.idx.com and company website

Based on the table above, the measurement of sustainability reports can be done through the Sustainability Report Disclosure Index (SRDI). SRDI assesses corporate social responsibility based on the Global Reporting Initiative (GRI) criteria, namely Economic, Environmental, and Social. The phenomenon that occurs in companies in the mining sector shows that the disclosure of sustainability reports every year is still inconsistent. Some companies disclose sustainability reports every year, but this is not always followed by an increase in the profitability ratio as measured by Return On Asset (ROA). According to Munif (2010) in Azwir Nasir, et al. (2014), the higher the level of company profitability, the greater the disclosure of social information. One example is in the company Darman Henwa Tbk where PT Darman Henwa Tbk discloses a Sustainability report every year, but the profitability ratio measured using the Return On Asset (ROA) projection at PT Darman Henwa Tbk decreases every year. Meanwhile, according to Fandi Ahmad (2014), companies with high profitability levels (ROA) tend to disclose more information to show the public and stakeholders that they have better profitability than companies that do not disclose information on their operational activities. Sustainability reports are one of the promotional tools that can improve a company's performance and ability to make a profit. However, companies that only disclose sustainability reports for one year

still show an increase in profitability ratios every year.

In this study, there are three aspects of performance disclosure from the sustainability report used, namely economic disclosure, social disclosure, and environmental disclosure. These three aspects will be assessed using the disclosure item index in the sustainability report. This study also applies company performance measurement through Return on Asset (ROA), because according to the Global Reporting Initiative (GRI 2016), the preparation of a sustainability report can be a benchmark for company performance. Company performance measurement is measured using Return On Asset (ROA) one year after the disclosure of the sustainability report.

Research conducted by Rita Wiyanti (2016) entitled The influence of sustainability report disclosure on company financial performance (all companies listed on the IDX 2013-2015), shows that all aspects of the sustainability report, namely economic, environmental, and social aspects, have a significant positive influence on company profitability, measured by Return On Asset (ROA). Meanwhile, research conducted by Junita, Simbolon, (2016) entitled The influence of sustainability report disclosure on company financial performance (empirical study on mining and infrastructure companies in the energy subsector listed on the IDX in 2010-2014), shows that partially, only economic performance disclosure has a significant

positive impact on financial performance. Environmental and social performance disclosure, although there is an influence, turns out to be negative and insignificant on the company's financial performance. Until now, research related to sustainability reports and financial performance has not reached a consistent conclusion. Various studies show different results, some showing negative impacts and some showing positive impacts.

METHOD

This study uses a quantitative method with a multiple regression analysis approach to test the effect of sustainability report disclosure (economic, environmental, and social aspects) on the company's financial performance as measured by Return on Assets (ROA). The data used are secondary data obtained from the Indonesia Stock Exchange (IDX) and sustainability reports

of mining companies for the period 2019-2022. The sample was selected using purposive sampling, with 13 companies that met the research criteria. Before the regression analysis was carried out, this study applied a classical assumption test, which included a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test to ensure that the regression model used was valid and free from statistical problems.

RESEARCH RESULT

1. t-test

The t-statistic test is used to assess the hypothesis because it relies largely on the assumption that other variables are held constant, so it can determine the effect of the independent variable on the dependent variable in the regression equation. The following is a table of t-test results:

Table 2 t-Test Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	243,836	295,825		0.824	0.414
EcDI	0.045	0.046	0.140	0.965	0.339
EnDI	0.001	0.005	0.037	0.258	0.798
SoDI	0.001	0.001	0.148	1,004	0.320

a. Dependent Variable: ROA

Source: SPSS Output 26, 2024

Based on table 4.6 above, the results of the hypothesis testing obtained the following regression equation:

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

$$ROA = 243.836 + 0.045 X_1 + 0.001 X_2 + 0.001 X_3 + e$$

The results of the t-test (partially) as follows:

- First Hypothesis Testing (X1)

H1: Disclosure of Sustainability Report Economic Aspects Affects Company Financial Performance

Table 4.6 above shows that the regression coefficient is 0.045. X1 has a significance value of 0.339 which is greater than 0.05. While the calculated t value is smaller than the t table, where the calculated t is 0.965 and the t table is 2.010. Based on this, partially the EcDI variable has no effect on Return On Asset. It is concluded that the first hypothesis is rejected.

- Second Hypothesis Testing (X2)

H2: Disclosure of Sustainability Report Environmental Aspects

Affects Company Financial Performance

The regression coefficient value is 0.001 based on table 4.6 above. The significance value of X2 is 0.798 which is greater than 0.05. While the calculated t value is smaller than the t table, where the calculated t is 0.258 and the t table is 2.010. Based on this, partially the EnDI variable has no effect on Return On Asset. It is concluded that the second hypothesis is rejected.

c. Third Hypothesis Testing (X3)

d. H3: Disclosure of Social Aspects of Sustainability Reports Affects Company Financial Performance

The regression coefficient value based on table 4.6 above is 0.001. The significance value of X3 is 0.320 which is greater than 0.05. While the calculated t value is smaller than the t table, where the calculated t is 0.148 and the t table is 2.010. Based on this, partially the SoDI variable has no effect on Return On Asset. It is concluded that the third hypothesis is rejected.

DISCUSSION

1. The Influence of Disclosure of Economic Aspects of Sustainability Report (EcDI) on Company Financial Performance

Disclosure of economic aspects in the sustainability report (EcDI) describes the company's contribution to the economy. However, the results of this study indicate that EcDI does not affect the company's financial performance as measured by Return on Assets (ROA). The test results show a regression coefficient of 0.045, with a significance value of 0.339 which is greater than 0.05, and a t-count of $0.965 < t\text{-table } 2.010$, so the hypothesis that EcDI affects ROA is rejected. These results indicate that disclosure of economic information in the sustainability report is not enough to improve the financial performance of

mining companies. Stakeholder theory states that companies strive to meet stakeholder expectations, but the economic benefits of the sustainability report may not be directly reflected in ROA. These results are in line with the research of Burhan & Rahmanti (2012), which also found that disclosure of economic aspects did not affect financial performance. However, it is different from the research of Rita Wiyanti (2016), which found that disclosure of economic aspects in the sustainability report affected ROA. This difference in results is likely because this study only focuses on the mining sector, while Wiyanti's research covers all companies on the Indonesia Stock Exchange.

2. The Influence of Environmental Aspect Sustainability Report Disclosure (EnDI) on Company Financial Performance

Environmental aspect disclosure in sustainability report (EnDI) reflects the company's concern for environmental sustainability. However, the results of the study indicate that EnDI has no effect on ROA. The test results show a regression coefficient of 0.001, with a significance value of 0.798 which is greater than 0.05, and a t-count of $0.798 < t\text{-table } 2.010$, so the hypothesis that EnDI has an effect on ROA is rejected. This finding indicates that transparency in environmental aspect disclosure is not enough to increase company profitability. Companies need to focus more on implementing environmentally friendly strategies, such as efficient use of resources and waste management, which can have a long-term impact on financial sustainability. Stakeholder theory states that companies meet stakeholder expectations by disclosing sustainability reports, but the economic impact of this practice may take time to be seen. This result is in accordance with the research of Burhan & Rahmanti (2012), but differs from the research of Rita Wiyanti (2016), which found that environmental aspect

disclosure has an effect on ROA. This difference in results may be due to the scope of the study, where Wiyanti's study covers all companies on the Indonesia Stock Exchange, while this study only focuses on the mining sector.

3. The Influence of Disclosure of Social Aspects of Sustainability Report (SoDI) on Company Financial Performance

Disclosure of social aspects in the sustainability report (SoDI) reflects the company's contribution to social welfare. However, the results of the study showed that SoDI had no effect on ROA. The test results showed a regression coefficient of 0.001, with a significance value of 0.320 which is greater than 0.05, and a t-count of $0.148 < t_{\text{table}} 2.010$, so the hypothesis that SoDI has an effect on ROA was rejected. This finding indicates that transparency in disclosure of social aspects is not enough to improve the company's financial performance. The implementation of concrete social programs, such as improving education, health, and community welfare, is more important to build reputation and public trust, which can contribute to the company's long-term success. Stakeholder theory states that companies strive to meet the needs of society, but the balance between social responsibility and economic profit is a challenge. These results support Bella's research (2018), which also found that disclosure of social aspects had no effect on financial performance. However, this is different from Rita Wiyanti's research (2016), which found that the higher the social aspect sustainability report disclosure index, the better the company's financial performance. This difference is likely because Wiyanti's research covers all companies on the Indonesia Stock Exchange, while this research only focuses on the mining sector.

CONCLUSION

Based on the research results, it can be concluded that the disclosure of

sustainability reports (SRDI), both economic (EcDI), environmental (EnDI), and social (SoDI) aspects, does not affect the company's financial performance as measured by Return on Assets (ROA) in the mining sector on the Indonesia Stock Exchange (IDX) for the period 2019-2022. This shows that the level of sustainability report disclosure does not have a direct correlation with the company's profitability. Thus, although the sustainability report is an indicator of company transparency, the disclosure of this information does not necessarily have a significant impact on financial performance in the short term. Therefore, companies need to consider other strategies in improving financial performance other than just focusing on sustainability report disclosure. Suggestions for further research are to expand the scope of the sample by considering other sectors and using a longer observation period. In addition, researchers are advised to add other variables that can affect the company's financial performance. For investors, sustainability reports can be used as a consideration in making investment decisions, while for company management, sustainability disclosure can be used as a strategy to attract investors' attention and improve the image and trust of stakeholders.

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