Article

by SusetyoDidik

The Seybold REPORT

ISSN 1533-9211

DOI 10.17605/OSF.IO/NBX9E

DOES DISCLOSURE OF SUSTAINABILITY REPORTS IMPACT PROFITABILITY RATIOS?

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Abstract

This qualitative study aimed to examine the effect of sustainability report disclosure on profitability ratios using the ex-post facto method. The sample comprised food and beverage manufacturing companies listed on the Indonesia Stock Exchange in 2019–2021. Data were collected through a literature review conducted on the companies and IDX's official website. The data were analyzed using a straightforward linear regression test approach. The findings showed that sustainability report disclosure obtained a sig value of 0.000, smaller than 0.05. Therefore, sustainability report disclosure significantly affects profitability ratios calculated using return on assets (ROA).

Keywords: Sustainability report, Profitability Ratios, Return on Asset, Manufacture

INTRODUCTION

The manufacturing industry plays a crucial role in economic development across many countries. In Germany, manufacturing accounted for 17.3% of employment, 22.6% of GDP growth, and 38.2% of primary energy consumption in 2016 (Steinhofel, Galeitzke, Kohl, & Orth, 2019). Furthermore, the manufacturing industry promotes sustainable development, a concept first mentioned in the Brundtland Commission report. In this report, the concept was defined as development that meets present requirements without compromising future generations' ability to meet their needs (Steinhofel et al., 2019).

The food and beverage industry is a sub-sector of the manufacturing industry, and like other industries, it needs to build public trust in its programs and products through effective communication. As noted by Sudana et al. (2014), achieving sustainability requires a collaborative effort from all stakeholders involved, including governments, businesses, civil society organizations, and individuals (Sudana, Sukoharsono, Ludigdo, & Irianto, 2014).

Sustainability reports are one-way businesses convey information to the public. In recent years, sustainability reports have become an important aspect of corporate growth (Susanto & Tarigan, 2013). This issue arises due to people's demands and expectations of the companies' participation in community organizations. The demands arose following many environmental and human disasters caused by corporate activities, such as the Lapindo Brantas hot mud-flow cases.

Sustainability reports are publications that provide information on an organization's economic, environmental, and social performance (ACCA Global, 2013). These reports are a response to

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ISSN 1533-9211

DOI 10.17605/OSF.IO/NBX9E

stakeholder requests for information on the organization's performance and risk management. Additionally, investors and other stakeholders can use sustainability reports as a benchmark to evaluate a company's commitment to sustainability (Adhima, 2012). Some organizations and businesses have moved from traditional reports that only include financial information to almost all financial and non-financial aspects.

The Public Company Law Number 2007 mandates that businesses engaged in natural resources must be socially and environmentally responsible. This regulation demonstrates the government's commitment to promoting social and environmental responsibility and addressing conflicts. To ensure that companies comply with these standards, the Global Reporting Initiative (GRI) has established guidelines for producing sustainability reports (Apriliyani, Farwitawati, & Nababan, 2021). The GRI G4 framework outlines a set of simple standards that public companies should meet, including management art and analysis, company profile, material considerations, stakeholder relations, reporting profile, and sustainability management (Chandra, 2020). Sustainability report publication is also prevalent in Indonesia encouraged by the NCSR award (Bimantara, Sayekti, & Puspita, 2022). The award is increasingly encouraging companies to provide accurate sustainability reports. As a result, studies relating to sustainability reports have become more widespread.

Bartlett (2012) showed that market value positively correlates with sustainability reports that include information on environmental and social performance. Evadewi & Meiranto (2014) also showed that sustainability reports positively affect the return on assets measured by SRDI. Moreover, Sejati & Prastiwi (2015) stated that liability reports do not significantly affect company value and future events. Pramudito, Muwidha, & Isrowiyah (2022) showed that all economic, environmental, and social disclosure variables affected profitability. Mulyawan, Sari, & Cahya (2020) found that corporate social responsibility does not affect tax avoidance, which is impacted by profitability. Therefore, corporate social responsibility and profitability affect tax avoidance simultaneously.

Previous studies have revealed various phenomena related to sustainability reports. For instance, Laskar (2019) used content analysis with the GRI sustainability reports guidelines and found that the average disclosure rates of sustainability reports were satisfactory at 88% and 85% for Indian and South Korean companies, respectively. According to Khan (2021), the overall performance of banks as profitability measured with internet value return was exceptional and pleasing. Nathiya (2000) found that the most important thing about business social responsibility is the corporate sector’s interest and willingness to accept and recognize its effect on the community, creating a sense of responsibility. Therefore, nonperforming companies are driven by social expectations to fulfill their obligations to the community.

Studies on reporting in Indonesia have produced inconsistent results and have rarely examined the relationship between corporate responsibility and earnings reports. Therefore, this study aimed to analyze the effect of sustainability report disclosure on profitability metrics with Return on Assets (ROA). The goal was to show the importance of sustainability reports and the inconsistency of previous results.

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DOI 10.17605/OSF.IO/NBX9E

METHOD

This study used a quantitative approach to collect information based on problem situations (Hanisa & Rahmi, 2021). The goal was to investigate the effect of sustainability report publication on corporate profitability indicators for manufacturing companies listed on the IDX between 2019 and 2021.

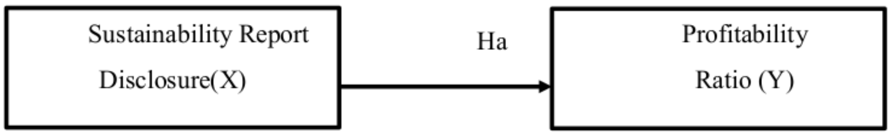

Figure 1: Study Framework

The sample was taken synchronously using predetermined criteria shown in Table 1.

Table 1: Sample Selection

No	Criteria	Total
1	Manufacturing companies listed on the IDX 2019-2021	201
2	The manufacturing company listed on the IDX before 2019	166
3	Food and beverage sub-sector manufacturing companies listed on the IDX in 2019-2021	23
	Number of samples	23
	Number of study years	3
	Number of analysis units	69

Source: Author's Processed Data, 2023

Data were obtained from financial and management reports of food and beverage companies listed on the IDX for 2019-2021. The study also collected data from www.idx.co.id and the websites of each company through documentation. The data were analyzed using a simple linear regression test with the SPSS statistical program.

RESULTS AND DISCUSSION

Data Analysis

Information regarding sustainability reports or purchases from food and beverage companies listed on the IDX was obtained from each company's official website. The businesses publicizing their reporting and assistance implementation were also determined.

This identification included a report on the strategy used, organizational profile, key aspects, stakeholder relationships, reporting profile, and ongoing management (Weber, Koellner, Habegger, Steffensen, & Ohnemus, 2008). Table 2 shows the disclosure of each report.

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Table 2: Sustainability Report Disclosure

Company	Year	Total	Company	Year	Total	Company	Year	Total	Company	Year	Total
ADES	2019	4	CLEO	2019	4	IIKP	2019	5	PANI	2019	2
	2020	4		2020	4		2020	4		2020	3
	2021	5		2021	4		2021	2		2021	0
ALTO	2019	0	DLTA	2019	5	INDF	2019	4	PCAR	2019	3
	2020	0		2020	4		2020	3		2020	4
	2021	0		2021	4		2021	4		2021	0
BTEK	2019	2	GOOD	2019	4	MGNA	2019	4	PSDN	2019	2
	2020	4		2020	2		2020	5		2020	2
	2021	2		2021	4		2021	5		2021	4
BUDI	2019	2	HOKI	2019	4	MLBI	2019	6	ROTI	2019	3
	2020	2		2020	2		2020	4		2020	2
	2021	2		2021	0		2021	6		2021	4
CAMP	2019	4	ICBP	2019	4	MYOR	2019	4	SKBM	2019	2
	2020	2		2020	4		2020	4		2020	0
	2021	4		2021	4		2021	3		2021	2
SKLT	2019	3	STTP	2019	5	ULTJ	2019	5			
	2020	3		2020	5		2020	4			
	2021	4		2021	5		2021	5			

Source: Author's Processed Data (2023)

The following formula was used to calculate ROA in the profitability metrics (Latifah & Luhur, 2017):

$$\mathrm{ROA} = \frac{\text{Net Profit}}{\text{Total Aset}}$$

Table 3 shows the ROA calculation results.

Table 3: ROA (Return on Asset)

Code	Year	ROA	Code	Year	ROA	Code	Year	ROA	Code	Year	ROA
ADES	2019	0.133977	CLEO	2019	0.138412	IIKP	2019	0.214056	PANI	2019	0.071943
	2020	0.175136		2020	0.12862		2020	0.129863		2020	0.007782
	2021	0.259049		2021	0.170587		2021	0.027322		2021	0.014572
ALTO	2019	0.01005	DLTA	2019	0.28923	INDF	2019	0.090951	PCAR	2019	0.079281
	2020	0.007994		2020	0.134389		2020	0.076171		2020	0.154895
	2021	0.006661		2021	0.184047		2021	0.0806		2021	0.012478
BTEK	2019	0.022842	GOOD	2019	0.114667	MGNA	2019	0.137084	PSDN	2019	0.005686
	2020	0.147838		2020	0.050965		2020	0.245219		2020	0.043516
	2021	0.032556		2021	0.093497		2021	0.278065		2021	0.097352
BUDI	2019	0.027971	HOKI	2019	0.16753	MLBI	2019	0.561491	ROTI	2019	0.074133
	2020	0.023392		2020	0.056096		2020	0.136365		2020	0.036018
	2021	0.038074		2021	0.022842		2021	0.300402		2021	0.089721
CAMP	2019	0.094121	ICBP	2019	0.192124	MYOR	2019	0.142057	SKBM	2019	0.002836
	2020	0.052275		2020	0.096137		2020	0.135704		2020	0.007672
	2021	0.109964		2021	0.084149		2021	0.077803		2021	0.022408
SKLT	2019	0.071799	STTP	2019	0.210665	ULTJ	2019	0.208122			
	2020	0.071943		2020	0.224299		2020	0.162383			
	2021	0.114411		2021	0.195239		2021	0.208176			

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Source: Author's Processed Data (2023)

Classical acceptance tests included normality, heteroscedasticity, and auto-correlation tests. The normality test obtained a Sig. value of 0.201, greater than 0.05, meaning the data is normally distributed. The heteroscedasticity test showed a Sig. value of 0.526, greater than 0.05. This result indicates that the regression example used has no heteroscedasticity, allowing further testing. The auto-correlation test obtained a Durbin-Watson value of 1.687 in the condition that 1.639 < DW < (4-1.639). Therefore, there is no auto-correlation in the sample data.

After all the classical assumption tests met the conditions, simple linear regression testing was performed. Table 4 shows the coefficients of simple linear regression test results.

Table 4: Coefficients

Model		Un-standardized Coefficients	
		B	Std. Error
1	(Constant)	,051	,016
	sustainability_report	,051	,004

Source: Author's Processed Data (2023)

The results show that sustainability report = 0.051 + 0.004 ROA. The positive simple linear regression coefficient means that a one-unit increase in sustainability report disclosure increases the profitability ratio by 0.051 units. The coefficient of determination obtained in simple linear regression testing is shown in Table 5.

Table 5: Coefficient of Determination

Model	R	R Square	Adjusted R Square
1	,815	,664	,659

Source: Author's Processed Data (2023)

Table 5 shows that the R-squared value is 0.664, meaning that 66.4% of ROA is affected by sustainability report disclosure. The remaining percentage is affected by other variables outside this study.

The correlation coefficient value is 0.815, meaning that sustainability report disclosure positively correlates with the profitability ratio. The value also indicates that the two variables are included in a very strong relationship category. This is because 0.815 is between the correlation coefficient intervals of 0.8000 to 1.000.

The hypothesis was tested to determine the individual effect of independent variables on the dependent variable. Table 6 shows the simple linear regression test results.

Table 6: Simple Linear Regression Results

Model		t	Sig.
	(Constant)	3,213	,002
	sustainability_report	11,508	,000

Source: Author's Processed Data (2023)

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DOI 10.17605/OSF.IO/NBX9E

The t-value of the sustainable reporting variable is 11.508 with a Sig value. 0.000 Less than 0.05. The results support Ha, while H0 is rejected, meaning the liability ratio partially has a significant effect on the earnings ratio.

DISCUSSION

This study showed that sustainability report disclosure significantly affected the profitability metrics of food and beverage companies listed on the IDX between 2019 and 2021. This result has a significant level of less than 0.05, supporting Adhima (2012) that sustainability report disclosure positively and substantially affected the profitability of manufacturing companies listed on the IDX. However, the findings contradict Sejati & Prastiwi (2014) that sustainability report disclosure cannot affect profit metrics through ROA. The variable of sustainability report disclosure was measured using the completeness of items in the sustainability report. In contrast, Sejati & Prastiwi (2015) measured the variable using sustainability aspects. This study chose item completeness to determine whether the companies analyzed had disclosed sustainability reports to the general public or only to related parties. Another aim was to investigate how companies consider sustainability reports to be important and well-prepared financial statements. The goal was to determine the profitability ratio of each company accurately and transparently.

Profitability for the following year increases due to the accountability report with results. This is because companies publish responsible reports containing comprehensive, reliable, and transparent information about their economic, environmental, and social issues. The accountability report promotes the development of a favorable public attitude toward the business (Wijayanti, 2016).

A company is always connected to external parties that help it grow and improve performance. This implies the importance of comprehensive sustainability report disclosure to the community regarding the company's activities. Through this disclosure, the community gains confidence in the company's products or services, improving its performance.

CONCLUSION

The findings showed that the publication of sustainability reports significantly affects the metric profitability of food and beverage companies listed on the Indonesia Impact Exchange during 2019-2021. The SPSS analysis obtained a Sig value of 0.000, less than 0.05.

Sustainability report disclosure was measured using its completeness aspects, including tactics and analysis, organizational profile, significant considerations, stakeholder relations, report profile, and sustainability planning. Additionally, the study measured the profitability ratio using the ROA calculation.

LIMITATIONS AND SUGGESTIONS

The study was conducted within a short survey period of three years and only analyzed food and beverage manufacturing companies. The references are also insufficient to support the

ISSN 1533-9211
DOI 10.17605/OSF.IO/NBX9E

topic under investigation.

Several suggestions could be provided for further studies on similar topics. First, future studies could explore other aspects used in calculating profitability ratios besides ROA. Second, the studies could measure sustainability report disclosure and its completeness, which is important for business actors. Third, the government could ensure that business actors make sustainability reports and strictly regulate their contents. This would ensure that all businesses have the same disclosure standards for sustainability reports.

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