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The Effect of Sustainability Report Disclosure on Banking Company Financial Performance in Indonesia Stock Exchange

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ABSTRACT : This study aims to investigate the effect of sustainability report disclosure on the financial performance of banks listed in Indonesia Stock Exchange (IDX) during the period of 2013-2016. The study focused on the effect of economic dimension (EcDI), environmental dimension (EnDI), and social dimension (SoDI) disclosures on financial performance. The dimensions of sustainability report disclosure were measured through indicators that have been developed which are in accordance with Global Reporting Initiative (GRI) G-4 Index and the financial performance measured through Return on Assets (ROA). The study results revealed that the disclosure of the economic and social dimensions had a statistically significant effect on ROA While the environmental dimensions did not affect the ROA. This means that the banks listed in Indonesia Stock Exchange (IDX) give more priority to the economic and social dimension disclosure, than to the environmental dimensions.

KEYWORDS: *Sustainability Report, GRI G4 Index, Bank, Financial Performance*

I. INTRODUCTION

In the era of globalization, it is expected to be more engaged with the communities and society where their operations are located and necessary to increase the existence of company with information transparency to society through disclosures. It has been argued that society increasingly expects business to prevent damage to the environmental, ensure the health and safety of communities (Deegan, 2010:345). United Nations Global Compact (2014:39) stated reporting to stakeholders in a transparent and public manner is fundamental for companies committed to sustainability. Sustainable business models follow a comprehensive sustainability logic that integrates economic, ecological, and social considerations with regards to present and future generations (Schneider, 2015). According to Elkington (1989) today business goals are not only profit oriented but also accountable to the people (people) and responsibility to the environment (planet). These three things are called the Triple Bottom-Line concept as a driving force for the successful implementation of sustainability. Fulfillment of social and environmental responsibility will make it easier to achieve sustainable development. The concept is a reflection of a term known by various companies in the world, namely Sustainability which has its own meaning for the company, namely the company's ability to survive as long as possible or is called the Long-Life Company (Elkington and Hailes, 1989). This is intended so that the business world minimizes adverse impacts on social and environmental aspects which are caused during carrying out all its activities (Purba and Yadnya, 2015). One way that steps towards sustainable development can be measured and transparent is to make a sustainability report disclosure that functions as a form of corporate accountability to stakeholders in the form of a report (GRI, 2013). According to the Global Reporting Initiative (2013) Sustainability report is the practice of measurement, disclosure, and accountability efforts of an organization's performance in achieving sustainable development goals to both internal and external stakeholders. Sustainability report for the company is a publication of information that reflects the organization's performance in the economic, environmental and social dimensions that can be a medium for the company to inform the organization's performance to all stakeholders that are considered as part of the dialogue between the company and its stakeholders, the more good disclosure of sustainability reports, stakeholders will also increasingly provide full support to the company for all its activities aimed at improving company performance and achieving profit (Handoyo and Jakasurya, 2017). A good reputation can be built by realizing more sustainability programs which in turn will increase the company's profitability (Pradnyani, 2017) through sustainability report disclosure.

The Indonesia Government has formulated strategy for sustainable development and green economy in Indonesia, for corporations categorized as Limited Liability Companies/Perseroan Terbatas (PT) in Indonesia with no exception in banking sector, the disclosure of Sustainability Report is supported by an obligation set forth on the Law No. 40 in 2007. Financial regulations have thus far in particular centered on providing economic capital according with monetary risks to make sure the stability of the financial enterprise. (Weber, 2017) Thus, stress at the monetary enterprise especially banking companies to perform properly in connection with sustainable development can play a main position in the goods and services of banking agencies together with loans and investments (Weber *et al.*, 2014) Studies have located that sustainability reports disclosure is correlated with the profitability of banking businesses making it possible to assist transformation into a greener economy (Alberici and Querci, 2015; Busch *et al.*, 2015; Zhao, 2015) Strong banks are essential for a strong economy. The banking institutions are complicated compare to other type of companies, in that they manage a large population that contributes funds to their banks and always be transparent to their stakeholders (Muhmad, 2017). Green banking defines the banking area not handiest to cognizance at the economic obligations of coping with its enterprise as quality as viable to generate most income for shareholders, but also to cognizance its duties on retaining the surroundings and the universe and enhancing social welfare. The idea of Green Banking is closely associated with Corporate Social Responsibility (CSR) is the concept of company social and environmental obligation to stakeholders or events laid low with the organization's existence. (Dewi and Dewi, 2017) Compared to other sorts of corporations, banking agencies manage funds from communities with big populations so they have to usually be obvious to their stakeholders. Thus, obvious disclosure is a very vital in part of banking businesses to make certain the exceptional performance for their stakeholders and meet all the tips wanted for the success of a sustainable banking organization. (Muhmad, 2017) Transparent and detailed reports can result in advanced reputation amongst stakeholders and sustainability reporting permits companies to amplify and steady social and human capital and offer enhanced competitive positions. (Zimara and Eidam, 2015) The importance of companies making disclosure Sustainability Report is to gain the trust of stakeholders because it is needed for the continuity of the company's business. The trust of these stakeholders can be in the form of investment decisions or cooperation that has the potential to increase company productivity which can affect the level of the company's net profit, where the increase in the company's net profit will increase the value of Return on Assets (ROA) in the company. Increased ROA value can be interpreted that the company's performance increases. More and more forms of corporate responsibility for the environment, a good corporate image in the community because the better the company's image, the higher customer loyalty so that in the long run the company will improve and the company's profitability also increases (Sudarma and Darmayanti, 2017). The publication of the Sustainability Report in banking sector is still limited, in Indonesia that from 116 commercial banks in Indonesia registered at Bank Indonesia, there are only 9 commercial banks that have conducted sustainability report disclosure during the 2013-2016 period in a row, but the urgency of research on Sustainability Report Disclosure gradually increased in recent years because they more aware of the risks to their reputational risks, both to stakeholders and relationship with other firms (Carnevale and Mazzuca, 2014). Research on sustainability reports as a form of economic, environmental and social disclosure continues to develop and become an interesting topic to be studied in Indonesia, especially in banking companies. This aims to see whether the sustainability report disclosure has had an impact on banks or has only been a report that has not been responded by stakeholders. Based on the background explanation of the problem previously described, the researcher is interested in discussing this topic and testing the hypotheses relating to the disclosure of Sustainability Reports in the economic, environmental, social dimensions and their effects on financial performance. Based on these descriptions the author examines this research about The Effect of Sustainability Report Disclosure on Financial Performance on Banking Company in Indonesia Stock Exchange.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The theoretical perspectives that have been adopted by previous researchers (Caesaria and Basuki, 2017; Novokmet and Rogosic, 2016; Carnevale and Mazzuca, 2014) is Stakeholders Theory and Legitimacy Theory. These theories are frequently used to provide an explanation for motivation for making non-financial disclosures and why businesses make certain sustainability document disclosures in their annual reviews or in other enterprise reviews. (Deegan, 2014: 341) Legitimacy Theory asserts that corporations retain to attempt to make certain that they may be considered operating within the obstacles and norms of their respective communities to ensure that there are sports which can be perceived via outsiders as legitimate. This requires groups to be responsive to the ethical or moral environment wherein they operate. Legitimacy theory is an agency that is taken into consideration to be able to influence or control through various strategies associated with disclosure so that it results in the movements of an entity this is appropriate and appropriate in some socially built norms and values system. (Deegan, 2014: 344) The legitimacy theory emphasizes that the enterprise must seem to bear in mind the rights of the wider network, not simplest the rights of its buyers or it can be concluded in this theory that the community comes to a decision that the agency allows to retain operations to the volume that it usually meets the expectations of the network (Deegan, 2014: 345) If a enterprise cannot justify sustainable operations in the experience of a network, it's going to cause consumers to lessen or cast off demand for products or services from corporations, fines or legal guidelines to limit actions that are not in keeping with community expectations (Deegan , 2014: 347) Legitimacy Theory has been used by many researchers who have selected to look at the reporting practices of social and environmental disclosure (Deegan, 2014: 356)

Stakeholder theory is to solve the problem of price value creation and trade, additionally to expose how a commercial enterprise can be managed to take into account its effects and duties on accountants (Freeman, 2010:10) To result in maximizing earnings, stakeholder management need to make sure real services and products with the employer say and what organizations do, have interaction with providers that drive agencies better, have employees worried of their work, and aid groups that enable companies to flourish (Freeman, 2010: 11) Stakeholder theory solves fee advent questions through asking how we can redefine, describe, or reinterpret stakeholder pastimes in order that we can discover ways to fulfill each, or to create more value for both. (Freeman, 2010: 16).

Financial performance is the result of decisions based on an assessment of the company's ability to generate profits. 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. Brigham and Houston (2006) state that profitability ratios will show the effects of liquidity, asset management, and debt on operating results. Profitability is a comparison tool on various investment alternatives that are appropriate to the level of risk. In this study, the Return on Assets (ROA) ratio is determined as a proxy for measuring profitability in accordance with the research of (Al-Dhaimesh and Al-Zobi, 2019; Caesaria and Basuki; 2017, Ching *et al.*, 2017; Cornett *et al.*, 2016; Kasbun *et al*, 2016; Shen *et al.*, 2016; Nor *et al.*, 2016; Rodriguez and Fernandez, 2015, and Hussain, 2015). This ratio is the net profit after tax of total assets and is a measure to assess how much the rate of return (%) of assets held. The relationship between the ratio of return on assets to the disclosure of sustainability reports is done in the context of accountability to stakeholders to maintain their support and also to meet their information needs as a medium of communication with stakeholders who want to gain confidence about how profits can be generated by the company. (Marwati and Yulianti, 2015)

According to Wiagustini (2010: 78), profitability ratios are ratios to measure a company's ability to generate profits. One of the profitability ratios is Return on Assets (ROA). According to Munawir (2007: 91), there are several advantages of ROA, namely: ROA analysis is useful for the benefit of the company in terms of planning, if the company has carried out good accounting practices, then the ROA analysis can measure the efficiency of overall capital use, which is sensitive to everything that affects the company's financial situation, the company's position against the industry can be known by measuring ROA and the company can compare the ROA it has with the industry ratio.

The definition of the Bank according to Act No.10 of 1998 concerning Amendments to Act No.7 of 1992 concerning Banking (Article 1 Paragraph 2):

"Banks are business entities that collect funds from the public in the form of deposits and distribute them to the public in the form of credit and or other forms in order to improve the lives of many people." The method for evaluating bank soundness is regulated in Bank Indonesia Regulation No. 13/1/PBI /2011 called Risk-Based Bank Rating (RBBR) which assesses aspects of Risk Profile, Good Corporate Governance (GCG), Profitability (Earnings), and Capital (Capital). Risk profile is an assessment of internal risk and the quality of risk management implementation in bank operations carried out on credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, reputation risk. Good Corporate Governance is to assess the quality of bank management on the implementation of GCG principles in accordance with those set by Bank Indonesia. Profitability is an aspect that is used to measure the ability of banks to increase profits in a period and a healthy bank is measured in terms of profitability that continues to increase above the standard set. The capital of a bank is based on the bank's minimum capital provider obligation in providing funds used to overcome the possible risk of loss. According to Jeucken (2001: 67), by publishing a sustainability report, the Bank as an intermediary institution reduces information asymmetry between borrowers and lenders relating to environmental aspects, because according to the report indicators show that the related bank has a clear view of the concern for the sustainability of a company .

The GRI-G4 Guidelines and the Financial Services Sector Disclosures form together the reporting framework for financial instituions. The disclosure of the economics aspects in sustainability report improve market performance since the disclosure of these aspects can prove their company’s contribution to the development of the global economy and local communities (Caesaria and Basuki, 2017). Most of studies (Al-Dhaimesh and Al-Zobi, 2019; Caesaria and Basuki, 2017; Nnamani *et al.*, 2017; Bukhori and Sopian, 2017; Wijayanti, 2016) concluded that the disclosure of the economic dimension led to an improvement in the companies financial performance while there are studies states no effect on financial performance (Sari and Andreas, 2019; Hutagalung and Harahap, 2016). The disclosure of environmental aspects can prove the company’s concern to environmental conditions associated with its operations (Caesaria and Basuki, 2017). Most of studies (Bukhori and Sopian, 2017; Wijayanti, 2016; Gatimbu *et al.*, 2016; Ong *et al.*, 2016) concluded that the disclosure of the environment dimension resulted in an improvement in the organization financial performance while there are studies states no effect on financial performance (Sari and Andreas, 2019; Hutagalung and Harahap, 2016; Nor *et al.*, 2016; Lesmana and Tarigan (2014)).

The disclosure of social aspect of the sustainability report can prove by providing a social contribution, the company will have the image of a good performance in the eyes of the market. Social commitment generates trust and credibility in societies (Zimara and Eidam, 2015) Bank rely vastly on their human resources (Rogosic and Caljkusic, 2015) Most of studies (Platonova *et al.*, 2017; Hutagalung and Harahap, 2016; Nevado-Pena *et al.*, 2015; Natalia and Tarigan, 2014) concluded that the disclosure of the social dimension led to an improvement in the companies financial performance while there are studies states no effect on financial performance (Sari and Andreas, 2019; Bukhori and Sopian, 2017). It leads to hypothesis :

H_1 : Economic Dimension (EcDI) affects the banking company financial performance.

H_2 : Enviornmental Dimension (EnDI) affects the banking company financial performance.

H_3 : Social Dimension (SoDI) affects the banking company financial performance

III. METHODS

In this study, researchers uses guidelines for the sustainability report disclosure, namely the 4th version of the Guidelines (GRI-G4) which was released in 2013. Of the three categories, there are a total of 91 items that must be disclosed, which consists of 9 items of economic dimensions, 34 items for environmental dimensions, and 48 items of social dimensions. These three variables disclosure in the sustainability report was measured through the Sustainability Report Disclosure Index (SRDI). The calculation is performed by using a dummy which was given a score of 1 if an item is disclosed and 0 if not disclosed. After scoring on all items in the sustainability report, scores are then summed to obtain the overall score of the company. SRDI calculation formula for each aspect of sustainability report which contains economic disclosure (EcDI), environmental disclosure (EnDI) and social disclosure (SoDI) :

$$EcDi = V_{ECDI}/M_{EC};\ EnDI = V_{ECDI}/M_{EN};\ SoDI = V_{SODI}/M_{SO}$$

V is number of item disclosed of every aspect, and M is number of item stated in GRI G4 Data collection procedures used are documentation and literature study. The amount of item based on GRI G4 Data collection in economic are 9 item, environmental are 34,and social are 48 item.

The literature sources used is from books, journals, through the electronic media, such as softfile financial statements of the BEI's website www.idx.co.id, softfile sustainability report on the each bank companies website, and other internet sites. The research population is all companies listed on the Indonesian Stock Exchange (BEI) in the period of 2013- 2016. Purposive sampling method used to select samples based on certain considerations in accordance with the research purpose. The criteria established are: (1) Banking companies listed in Indonesia Stock Exchange (BEI); (2) Publish a sustainability report (3). Sustainability reports based on the GRI Guidelines G4 in consecutive period 2013-2016. Based on these criteria, 9 companies met to be chosen as samples are PT Bank Negara Indonesia Tbk, PT Bank Rakyat Indonesia Tbk., PT Bank Tabungan Negara Tbk., PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk., PT Bank Pembangunan Daerah Jawa Timur Tbk., PT Bank Mandiri Tbk., PT Bank CIMB Niaga Tbk., PT Bank Maybank Indonesia Tbk., and PT Bank OCBC NISP Tbk. during four-year research periods since GRI-G4 began to be used in 2013. Then the number of samples became 36 companies.

IV. RESULT AND DISCUSSION

The regression equation model is

$$Y = \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e$$

in which

Y = Financial Performance (Return on Assets (ROA))

$\beta 1$, $\beta 2$, $\beta 3$ = regression coefficient

x_1 = economic disclosure (EcDI)

x_2 = environmental disclosure (EnDI)

x_3 = social disclosure (SoDI)

e = error term

Table 1 Multiple Regression Analysis Output

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	,002	,003		,763	,451
EcDI	,018	,005	,525	3,766	,001
EnDI	-,012	,007	-,253	-1,847	,074
SoDI	,017	,006	,437	2,925	,006

a. Dependent Variable: ROA

Indicates that β_1 of 0,525, β_2 of -0,253 and β_3 of 0,437. The regression equation model will be :

$$Y = 0,525\ x_1 - 0,253\ x_2 + 0,437\ x_3 + e$$

These results indicate that if there is 1% increase in economic disclosure then there will be increase ROA by 0,525. Likewise, also if there is 1% decrease in economic disclosure then there there will be decrease by 0,525. If there is 1% increase in social disclosure then there will be increase ROA by 0,437. Conversely, if there is 1% decrease in social disclosure then there will be descrease by 0,437. Whereas, if there is decrease environmental disclosure by 1% then the ROA will decrease by 0,253.

The economic disclosure value on the ROA is 0,001. Basic test of significance value if sig probability <0,05 then it is stated to be significant but if sig probability >0,05 then it is stated to be insignificant. Since the value of economic disclosure is 0,001 or prob sig < 0,05 then it is stated to be significant. The environmental disclosure significance value on the ROA is 0,074 or 0,074>0,05 then it is stated to be insignificant. The social disclosure significance value on the ROA is 0,006 or 0,006<0,05 then it is stated to be significant.

Table 2 Multiple Regression Analysis Output

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	,001	3	,000	13,650	,000[b]
Residual	,001	32	,000		
Total	,002	35			

a. Dependent Variable: ROA

b. Predictors: (Constant), SoDI, EnDI, EcDI

The sig. value <0.05 then, it is stated to be significant or EcDI, EnDI, and SoDI variables simultaneously have significant effects on the financial performance (ROA). It is suitable to use. Contribution of EcDI, EnDI, and SoDI variables to the financial performance can be seen from the Adjusted R Square (R^2) as listed below.

Table 3 Multiple Regression Analysis Output

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	,749[a]	,561	,520	,005368

a. Predictors: (Constant), SoDI, EnDI, EcDI

b. Dependent Variable: ROA

The Adjusted R Square (R^2) is 0,520 which means the EcDI, EnDI, and SoDI contribute 52% to the financial performance (ROA), while the remaining 48% is affected by other factors beyond this model.

Effects of Economic Disclosure on the Financial Performance

The results showed that the economic dimension had an influence on financial performance which was proxied by return on assets. This is evidenced by the *p-value (Sig)* of 0.001 <0.05 then H_0 is rejected and H_1 is accepted. This result means that the Economic Dimension has a positive effect on the financial performance of banks. The economic dimension is the disclosure of information related to an organization's impact on the economic situation of its stakeholders and on the economic system at the local, national and global levels (GRI, 2013). Based on the analysis results of Economic Disclosure effects on the financial performance, it is found that there are positive and significant effects, which is the same results in research by (Al-Dhaimesh and Al-Zobi, 2019; Caesaria and Basuki, 2017; Nnamani *et al.*, 2017; Bukhori and Sopian, 2017; Wijayanti, 2016) the research hypothesis stating that Economic Disclosure affects positive and significantly on the financial performance has adequate evidence to be accepted. Disclosure of the economic dimension causes an growth within the organization's economic performance through growing the self assurance of potential traders and creditors in order to improve the image of the enterprise.

Effects of Environmental Disclosure on the Financial Performance

The Environmental dimension has a *p-value (Sig)* of 0.074 < 0.05 then H_0 is accepted and H_2 is rejected. This result means that the Environmental Dimension has no effect on the financial performance of banks. The Environmental Dimension is the disclosure of information relating to an organization's impact on living and non-living natural systems, including land, air, water and ecosystems (GRI, 2013). Stakeholder theory in which companies are not entities that only operate for their own interests but must also provide benefits to other stakeholders, but the awareness of banking companies to disclose the environmental dimension is still not optimal. Based on the analysis results of Environmental Disclosure effects on the financial performance, it is found that there are negative and insignificant effects, which is the same results in research by (Sari and Andreas, 2019; Hutagalung and Harahap, 2016; Nor *et al.*, 2016; Lesmana and Tarigan (2014) then the research hypothesis stating that Environmental Disclosure affects negative and insignificant on the financial performance has no adequate evidence to be accepted. This finding indicated that increased Environmental Disclosure for a bank company cannot describe the increased financial performance in the banking companies registered in Indonesia Stock Exchange, because it has a poor effect on Return on Assets (ROA) due to the expenditure for sustainability reporting as an additional price thereby lowering the possibility to gain most earnings or profit.

Effects of Social Disclosure on the Financial Performance

The Social dimension has a *p-value (Sig)* of 0.006 < 0.05 then H_o rejected and H_3 is accepted. This result means that the Social Dimension has a positive effect on the financial performance of banks. This shows that the higher the company's financial performance, the higher the social performance expressed by the company. The Social Dimension is the disclosure of information relating to the impact an organization has on the social system in which the organization operates (GRI, 2013). Disclosure of sustainability report aspects of social performance will have an impact on stakeholder perceptions about the company's treatment of the surrounding human resources (Simbolon & Sueb, 2016). By carrying out and reporting social responsibility to stakeholders, it can not only improve the financial performance of banking companies but can also improve employee welfare and loyalty and reduce employee turnover so that it can lead to increased company productivity which can also increase profitability. The results of this study are in line with Weber's research (2017) that the Social Dimension has a positive effect on financial performance and is in accordance with the Legitimacy Theory which confirms that companies continue to strive to ensure that they operate within the frames and norms that exist in the community or environment in which the company is located, where they are strive to ensure that company activities are accepted by outside parties as legitimate, which is the same results also with (Platonova *et al.*, 2017; Hutagalung and Harahap, 2016; Nevado-Pena *et al.*, 2015; Natalia and Tarigan, 2014), then the research hypothesis stating that Social Disclosure affects positive and significantly on the financial performance has adequate evidence to be accepted. By creating a place where people want to work and better able attract quality staff which is a critical issue for a service business facing profound demographic changes, it leads to motivated employees and influence customers satisfaction.

V. CONCLUSION

The results of the study examines the effect of sustainability report disclosure on financial performance on banking company in Indonesia Stock Exchange shows the economic dimension influences the financial performance of banks. This shows that banking companies that disclose the dimensions of economic performance make investors will tend to invest the capital they have in companies that conduct economic dimension disclosure activities, which can improve the company's financial performance. The environmental dimension does not affect the financial performance of banks. This is not in line with Stakeholder Theory where companies are not entities that only operate for their own interests but must also provide benefits for other stakeholders, but the awareness of banking companies to disclose the environmental dimension is still not optimal. Social dimensions affect the financial performance of banks. This shows that in accordance with the Legitimacy Theory which confirms that companies continue to strive to ensure that they operate within the framework and norms that exist in the community or environment where the company is located, where they try to ensure that the company's activities are accepted by outsiders as legal. The results of the study show that Economic Disclosure and Social Disclosure have a positive effect on the financial performance of banks listed on the Indonesia Stock Exchange in the 2013 period. - 2016. This is in line with stakeholder theory where the disclosure of financial, social and environmental information is a dialogue between the company and stakeholders in the hope of meeting information needs aimed at improving company performance and achieving expected profits. The results of this study indicate that Economic Disclosure and Social Disclosure affect the financial performance of banks listed on the Indonesia Stock Exchange in the period 2013-2016. Companies will have better financial performance if the company carries out the Sustainability Report disclosure activities.

The results of this study are expected to be considered by stakeholders for decision making.Based on research results obtained through statistical testing and discussion as described in the previous chapter, it can be concluded that the sample in this study is only limited to 2013-2016 using the GRI-G4 Index so that if there is a recent index development, relevant results can be obtained in the future and this study only examines the effect of Sustainability Report on the financial performance of banking companies which are proxied by Return on Assets (ROA). For further research it is recommended to use other performance measures.

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