The Effect of Sustainability Report Disclosure on the Profitability of Energy Companies in Indonesia

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Abstract
This study aims to confirm the effect of sustainability report disclosure on the profitability of energy companies in Indonesia. The data used in this study is secondary data with panel data type. The population and research sample are energy companies listed on the Indonesia Stock Exchange for consistently published sustainability reports and annual reports for the 2019-2021 period. totaling 15 companies for a period of 3 years. The analytical method used in this research is quantitative with panel data regression analysis. The results of the study show that economic and social performance has a non-significant positive effect on Return on Assets. Meanwhile, environmental performance has a significant negative effect on Return on Assets.

Keywords: *economic performance; environmental performance; social performance; sustainability report and return on assets.*

A. Introduction

In order to get big profits, it is not uncommon for companies to use resources excessively to the point where it has a negative impact on the environment and social. This condition triggers global problems such as environmental damage, climate change, social crises which ultimately result in economic crises that occur in various countries (Miklosik & Evans, 2021). Reported through the official website of earthworks.org 2022, a United States national organization, explains the negative impact of the world's gold mining industry on the environment and social society. There are 2 Indonesian companies namely Freeport Indonesia contributing 80 million tons of tailings and Newmont Sumitomo contributing 40 million tons of tailings (Earthworks, 2022). Therefore it is very important for companies to care about their responsibility for sustainability, namely the responsibility for environmental sustainability and social responsibility for the community.

Disclosure of a balanced company's economic, environmental and social performance can be done through the concept of TBL or the Triple Bottom Line, known as the 3P. The points explaining TBL's economic, social and environmental performance can be contained and reported in the Sustainability Report (Kealy, 2019) So that every public company in Indonesia must issue a sustainability report every year.

Environmental and social problems often occur in Indonesia, such as what happened to Pertamina as an oil and gas company, such as the disposal of industrial waste which results in the contamination of the community's rivers (Pratama, 2020) PT Kaltim Prima Coal which has environmental pollution, air pollution, damage to flora and fauna which has an impact on public health (Dyastari, 2017). Environmental and social concern as one of the responsibilities outside of the company's operations.

Sustainability Report disclosure research has been studied before in various contexts of discussion. There is research on Sustainability Report disclosures that affect market performance (Suwandi & Butar Butar, 2019) Other research has discussed sustainability report assurance which is influenced by profitability, leverage, company size and type of industry with the results of research on almost all influential variables except company size (Privika et al., 2021) Researchers are interested in conducting research on the effect of Sustainability Report disclosure on the profitability of energy companies in Indonesia.

This study uses energy companies as research objects. Energy companies are one of the corporate sectors with operational activities capable of over-exploiting resources. In addition, the disclosure indicator uses the Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 16 / SEOJK.04 / 2021 concerning the form and content of the annual report of issuers or public companies.

B. Literature Review

a. Stakeholder Theory

The concept of stakeholders defines as any group or individual who has influence and or is affected by the achievement of organizational goals (Robert Philips, 2010) Viewed from the normative aspect as proposed by Donaldson and Preston (1995) explaining its relation to morals and ethics specified in relation to social responsiveness, in this case as corporate social responsibility in a sustainable manner. An organization can already be considered as an organization that fulfills social ethics if there is no environmental (ecological) damage and sustainable social injustice (Sastrawan Manullang, 2017).

b. Tripple Bottom Line and Sustainability Report

The Triple Bottom Line (TBL) is a method that allows companies to assess their performance based on three bottom lines: environmental, social and economic (Sustainable Business Network, 2003) The Triple Bottom Line contains three basic lines, namely the economic bottom line, the environmental bottom line and the social bottom line. The Global Reporting Initiative (GRI) in GRI 101: Foundation 2016 explains the definition of Sustainability Reporting is an organizational practice in publicly reporting economic, environmental and/or social impacts, and therefore their contribution – positive or negative – to sustainable development goals. GRI as the official implementing agency for world reporting standards explains that implementation reporting is an organizational practice to publicly report on economic, environmental and/or social impacts, and therefore their contribution – positive or negative – to sustainable development goals (GRI GSSB, 2016).

C. Research Methods

This research is a type of quantitative research, with a definition according to (Sugiyono, 2017) Quantitative research relies on statistical analysis of the sample data obtained to test the research hypothesis. Data processed using Tools run EViews sourced from the website of the Indonesia Stock Exchange, the Financial Services Authority and supporting references. The research data used is in the form of panel data which is a combination of time series data and cross section data.

D. Result and Discussion

1. Research Result

Panel Data Regression Estimation Model

Fixed Effect Model Method

Table 1

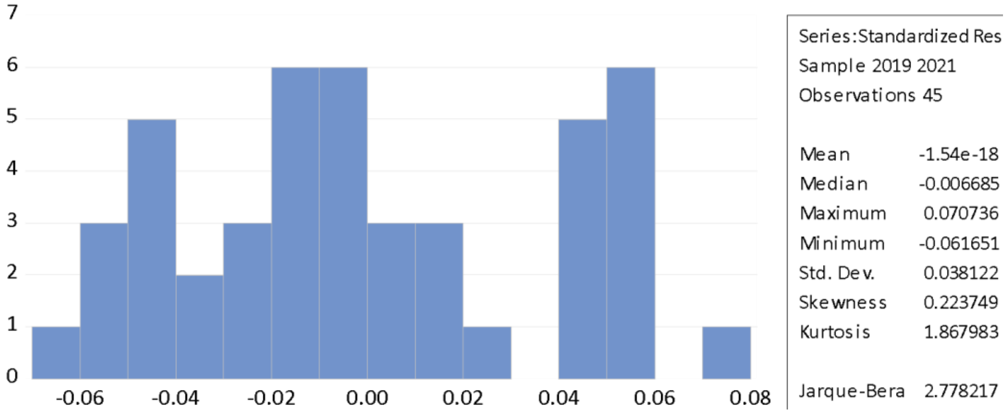
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.034808	0.011433	3.044424	0.0052
KE	0.011473	0.014625	0.784463	0.4396
KL	-0.007722	0.002585	-2.987146	0.0059
KS	0.003963	0.003975	0.996930	0.3276
Root MSE	0.037697	R-squared		0.958666
Mean dependent var	0.136757	Adjusted R-squared		0.932642
S.D. dependent var	0.209818	S.E. of regression		0.048666
Sum squared resid	0.063946	F-statistic		36.83658
Durbin-Watson stat	2.907857	Prob(F-statistic)		0.000000
	Unweighted Statistics			
R-squared	0.657515	Mean dependent var		0.040469
Sum squared resid	0.072023	Durbin-Watson stat		3.273220

The probability value of the economic variable is 0.4396 which has no significant effect on the probability value greater than 0.05. While the probability value for the environmental variable is 0.0059 which means it has a significant effect because the probability value is smaller than 0.05. while the social performance variable of 0.3276 has no significant effect on Return on Assets.

Classic Assumption Test

a. Normality Test

Table 1. The result of Normality Test



Based on table 8 it is known that the probability value of Jarque-Bera is 0.249297. because the probability value is > 0.05, so that the normality assumption test has been fulfilled.

b. Multicollinearity Test

Table 2. Multicollinearity Test Results

	KE	KL	KS
KE	1	0.008098519255754766	0.2316294554296676
KL	0.008098519255754766	1	0.6233477344753796
KS	0.2316294554296676	0.6233477344753796	1

Based on the table above, the correlation between the independent variables does not exceed 0.90. So it can be concluded that there is no multicollinearity between independent variables in this study.

c. Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.028878	0.005868	4.921207	0.0000
KE	-0.003415	0.006182	-0.552350	0.5853
KL	-0.002695	0.005457	-0.493912	0.6254
KS	0.001123	0.005694	0.197200	0.8451

The output results above show that the Economic Performance variable has a p-value of 0.5853, the Environmental Performance variable has a p-value of 0.6254, and the Social Performance variable has a p-value of 0.8451 with a probability value greater than 0.05, indicating that there is no heteroscedasticity problem.

d. Autocorrelation Test

Table 4. Autocorrelation Test Results

	Weighted Statistics		
Root MSE	0.037697	R-squared	0.958666
Mean dependent var	0.136757	Adjusted R-squared	0.932642
S.D. dependent var	0.209818	S.E. of regression	0.048666
Sum squared resid	0.063946	F-statistic	36.83658
Durbin-Watson stat	2.907857	Prob(F-statistic)	0.000000

The DW value of 2.907857 means that the value is in accordance with the criteria above, in the form of an equation that is 2.6168 < 2.907857 < 4. For this reason the autocorrelation test in this study has been fulfilled with the conclusion that there is no autocorrelation.

Hypothesis test

a. Coefficient of Determination (R2)

Table 5. Determination Coefficient Results

	Weighted Statistics		
Root MSE	0.037697	R-squared	0.958666
Mean dependent var	0.136757	Adjusted R-squared	0.932642
S.D. dependent var	0.209818	S.E. of regression	0.048666
Sum squared resid	0.063946	F-statistic	36.83658
Durbin-Watson stat	2.907857	Prob(F-statistic)	0.000000

The results of this study indicate that the value of Adjusted R-Square is 0.932642. This shows that the variable KE KL KS to RoA can be explained in a model of 93.26% to RoA. and the remaining 16.74% is explained by other variables not examined in this study.

b. F Test (Simultaneous)

Table 6. F test results

	Weighted Statistics		
Root MSE	0.037697	R-squared	0.958666
Mean dependent var	0.136757	Adjusted R-squared	0.932642
S.D. dependent var	0.209818	S.E. of regression	0.048666
Sum squared resid	0.063946	F-statistic	36.83658
Durbin-Watson stat	2.907857	Prob(F-statistic)	0.000000

Based on the results of the F test above, the significance value of the above test is 0.000208 <0.05. This proves that KE KL KS simultaneously has a significant effect on RoA.

c. t test (Partial)

Tabel 7. Hasil Uji T

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.034808	0.011433	3.044424	0.0052
KE	0.011473	0.014625	0.784463	0.4396
KL	-0.007722	0.002585	-2.987146	0.0059
KS	0.003963	0.003975	0.996930	0.3276

X1 = Has No Significant Positive Influence (Prob > 0.05)

X2 = Significant Negative Effect (Prob <0.05)

X3 = Has No Significant Positive Influence (Prob > 0.05)

Regression Model Equations

$Y = \alpha + \beta X1 + \beta X2 + \beta X3 + ... + e$

RoA = 0,034808 + 0,011473(KE) – 0,007722(KL) + 0,003963(KS)

1. It is known that the P-value of KE is 0.4396 which is greater than the value of 0.05 and t count 0.784463 which is greater than t table 1.98498 (n-k = 100 – 4, α = 0, 05). This proves that the variable Return On Assets has a not significant positive effect.
2. It is known that the P-value of KL is 0.0059 which is smaller than the value of 0.05 and tcount -2.987146. This proves that ROA is significantly negatively affected.
3. It is known that the P-value of KS is 0.3276 which is greater than the value of 0.05 and tcount 0.996930. This proves that ROA is positively influenced but not significant.

2. Discussion of Research Result

Stakeholder theory as an interpretation of a company that is not just an entity for its own sake but also provides benefits for stakeholders. As previous studies have explained, poor sustainability reporting proves that the company's ability to meet stakeholder expectations is weak (Ebaid, 2023) Specific to profitability, previous studies have also used the Return on Assets ratio as a company's ability to obtain business objectives (profit) through assets and implement sustainable social and environmental responsibility.

1. The effect of disclosing economic performance in the Sustainability Report on the Profitability of energy companies in Indonesia.

   The results of the research data analysis prove empirically that economic performance in one aspect of the Sustainability Report has no significant positive effect on Return on Assets. Partially from the results of the t test for economic performance with a coefficient value of 0.011473 and a probability value of 0.4396 > 0.05. This provides information that more and more companies disclose economic performance including aspects of financial performance information for three consecutive years and sustainable financial information cannot show how much a company's ability to generate profitability. so that the presence of financial report information in the Sustainability Report does not make a positive contribution, because this information already existed before the implementation of the Sustainability Report. (Mulpiani, 2019).

   Another reason is based on the results of previous research which explains the significant or not positive and negative effects on economic performance can also be influenced by the results of environmental performance. between environmental performance has a relationship with economic performance. costs used on environmental performance will be informed on economic performance. if a company has a significant level of exposure to environmental costs, the consequences reduce the information asymmetry that negatively impacts the cost model on economic performance. (Al-Tuwaijri et al., 2004).

   The first hypothesis on economic performance based on the results that have been obtained states that there are differences in the results with previous research. As research (Winri Mulpiani, 2019) states in the research results that economic performance has a positive influence on RoA.

2. The effect of environmental performance disclosure in the Sustainability Report on the Profitability of energy companies in Indonesia

The second hypothesis in this study explains that disclosure of environmental performance in the Sustainability Report has a significant negative effect on profitability. The results of the t test obtained partial environmental performance values with a coefficient value of -0.007722 and a probability value of 0.0059 <0.05. Contrary to the research hypothesis which states a positive influence on profitability. The basic reason is because environmental performance is the performance with the most disclosure items totaling 13 items. Each item requires a large cost, such as items including environmental costs, use of environmentally friendly materials, amount and effort to achieve efficient use of renewable energy, effort to conserve biodiversity, amount and effort to reduce emissions, amount and mechanism for waste management, and others. The more complete the achievement of environmental performance items, the more costs that must be incurred by the company.

The findings of environmental performance testing results have a negative and significant effect in line with previous research with the same results. As research (Eliyana & Subakir, 2020) explains that implementing an environmental program to fulfill points in the Sustainability Report requires financing on a large scale and can reduce a company's assets.(Eliyana & Subakir, 2020) Research (Nugrahani & Artanto, 2022) also states that disclosing items on environmental performance does not have a positive effect on profitability but on the contrary can reduce profitability because environmental performance requires large costs to control. (Nugrahani & Artanto, 2022).

3. The effect of social performance disclosure in the Sustainability Report on the Profitability of energy companies in Indonesia.

The results of the data analysis stated that social performance disclosure showed a positive effect on profitability but not significant. The results of the t test partially explain that social performance has a coefficient value of 0.003963 and a probability value of 0.3276 > 0.05. employees and a healthy and decent environment. Besides that, the social responsibility aspect of the community has become the obligation of every company to implement this program even before the sustainable concept was implemented. Therefore social performance has a positive but not significant effect. Social performance can increase spending greatly so that the impact on profitability. (Mulpiani, 2019).

4. The effect of disclosing economic, environmental and social performance in the Sustainability Report on the Profitability of energy companies in Indonesia.

   The results of this study indicate that the P-Value value < 0.05 which proves simultaneously that the Sustainability Report disclosure variable influences the profitability of Energy companies in Indonesia. In line with the results of previous research (Rizki & Dani, 2017) the simultaneous results of the Sustainability Report have an effect on Return on Assets. Information on economic, environmental and social performance as evidence of companies to the public in carrying out social responsibility, as a consideration for investors making investments and as a basis for increasing public trust in companies that carry out social and environmental responsibility. (Bukhori & Sopian, 2017).

E. Conclusion

The results of economic variables provide information that more and more companies disclose economic performance including aspects of financial performance information for three consecutive years and sustainable financial information cannot show how much a company's ability to generate profitability. The results of social performance are the same as economic performance, that is, they have no significant effect. Aspects of social performance include employee welfare and social responsibility. It is the Company's obligation to employees so that it does not make a positive contribution to the Company's profit. The results of environmental performance are in contrast to economic performance and social performance. environmental performance has a significant negative effect on the Company's profitability. This means that the greater the costs spent on environmental programs, the less RoA will be. Because there are many economic performance points that require large-scale environmental costs.

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