The Effect of Sustainability Reporting Based on *Global Reporting Initiative* on the Financial Performance of Sharia Companies in Indonesia

Evi Mutia
Syiah Kuala University, evimutiafe@unsyiah.ac.id
Siti Fackrunisah
Syiah Kuala University, siti.fackrunisah@gmail.com
Cut Afrianandra
Syiah Kuala University,afrianandra_cut@unsyiah.ac.id

ABSTRACT

Research trends regarding sustainability reporting begin to increase gradually in Indonesia, as well as the increasing number of companies that publish sustainability reports. However, many of these studies still show inconsistent results. The aim of this study is to reexamine the relationship between sustainability reporting disclosure and financial performance. There are two things that distinguish this research from the previous ones. Firstly, this research uses companies that consistently publish sustainability report and secondly, this study uses of measures of financial performance, namely: asset management ratio, profitability ratio and market ratio. Samples consist of 40 firms, which is derived from the companies that consistently publish sustainability reporting period of 2014-2015. The results indicate that the sustainability report has no effect on the assets management ratio, while the other two variables indicate that sustainability reporting effect on the profitability ratio and market ratio.

Keywords: Sustainability reporting, assets management ratio, profitability ratio, market ratio.

INTRODUCTION

Fahmi (2012:2) describes financial performance as a representation of company's achievement or the result of company's activities that have been done before. Meanwhile, according to IAI (2007), financial performance is the company's ability to manage and control its own resources. These definitions shows a fairly close relationship with the assessment of health situation of the company itself. Back in 1987, United Nations for the first time formally defined sustainable development "... to meet the needs of the present generation without diminishing the ability to meet the needs for future generations" (Commission on Environment and Development (in GRI, 2006)).

Sustainability report is a voluntary form of report to fulfil company's social and environmental responsibility. Netherlands-based The Global Reporting Initiative (GRI) developed a sustainability report framework that guides companies which disclose their sustainability reporting, with G4 guidelines as the latest one. The high number of urgency and pressure on risks and threats to common sustainability leads to the importance of transparency about economic, environmental and social impacts as a major component of effective relationships with stakeholders, investment policy, and other markets relations. To that end, theGlobal Reporting Initiative(GRI) in collaboration with theNational Center for Sustainability Reporting(NCSR) launches CSR reporting guidelines for Southeast Asia.TheCorporate Social Responsibility(CSR)reporting guidelinesfor the Southeast Asia region, called GRI G4, was first launched in Amsterdam, The Netherlands, on 22 May 2013, coincided with the Global Conference on Sustainable Reporting, attended by 1600 participantsfrom 70 countries, including 20 delegates from Indonesia.

Dated back in 2000 when the first edition of the report is out, Sustainability Report Guidelines had been revised several times along with the development of the business world and the complexity of sustainability issues, with the latest one called G4, or the fourth generation of the report (HarianEkonomi, 2014).

The Government of Indonesia has legally obliged companies incorporated as Limited Liability Company (PT) to prepare accountability reports pursuant to Law No.40 of 2007.The Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) also issued a similar regulation inBapepam-LK Rule Number X.K.6.These rules show the government's serious concern for social and environmental responsibility in the business world.(Wijayanti, 2016) Sustainability report is needed for stakeholdersincluding the community to understand all forms of corporate responsibility to the community and the environment.This happens with the consideration of many environmentally damaging cases that occur in Indonesia, such as the tragedy of mud volcano floods in Sidoarjo due to PT.LapindoBrantasInc and Buyat bay pollution in South Minahasa due to PT.Newmont Minahasa Raya (Walhi, 2010).

Based on previously shown phenomena that encourage the importance of sustainability report disclosure and inconsistent results of previous researchers' work, this study was conducted by analyzing the effect of sustainability reporting disclosure on the company's financial performance as measured by asset management ratio using assets turnover, profitability ratio using return in asset, and market ratio using price to earnings ratio. This research was conducted based on previous research by Samuel and Tarigan (2014). The point of differences from the previous study is the usage of Asset Management, Profitability, and Market as indicators for financial performances and data source of the research. The objective of this study is to review the influence of sustainability reporting towards Asset Management Ratios, Profitability Ratios, and Market Ratios.

LITERATURE REVIEW

Theory of Stakeholder

Gray et al. (2001) definestakeholders as the parties which have interest in the company and may affect the company's activities. These incudes communities, employees, government, suppliers, capital markets, and others.Ullman (in GhozalidanChariri, 2007) says that the organization will pick the most important stakeholders and take actions that can generate harmonious relationships between the company and its stakeholders.

Theory of Legitimacy

Legitimacy is a recognition ofthelegality.An organization's legitimacy can be said to be a potential benefit or source for companies to survive (Asforth and Gibs, 1990; Dowling and Preffer, 1975; O'Donovan 2002; as quoted by Ghozali and Chariri, 2007).According toDowling and Preffer(1975),company operates with the consent of the community, where this permit can be withdrawn if the public judges that the company does not do the things that belongs to their responsibility.The goal is to gain the legitimacy of the community and explain the social and environmental impacts of the company.

Sustainability Report

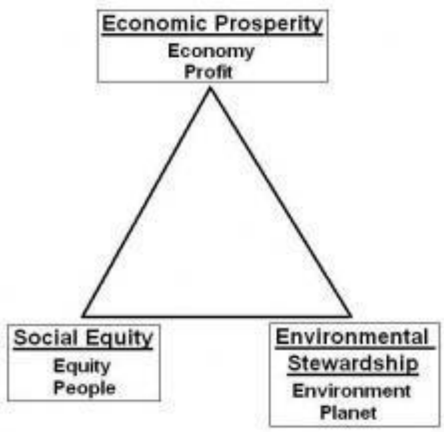
According to Elkington (1997), sustainability reporting means a report that contains not only financial performance information but also non-financial information consisting of social and environmental activities that enable the company to grow sustainably.Currently, the implementation of sustainability reporting in Indonesia is supported by government regulations such as the Law of Limited Liability Company (PT) Number 40 of 2007.

The practice of reporting on social and environmental responsibility activities that disclosed through sustainability reports requires a guidance.One of the guidelines that could be used is the Global Reporting Initiative (GRI).Benefits of sustainability report based on the GRI framework (2013) are as follows:

1. as a benchmark of organizational performance with regard to law, norms, laws, performance standards, and voluntary initiatives;
2. Demonstrate organizational commitment to sustainable development, and
3. Comparing organizational performance every time.

The concept of sustainability report stands on the triple bottom line developed Elkington.

Triple Bottom Line



Source: www.centerforsustainability.org, 2012

When a company runs its activities in addition to pursuing profit, the company must pay attention to the welfare of people and the preservation of the environment or the planet.The financial performances studied in this research are as follows:

1. Asset Management Ratio

According to Sugiama (2013: 15) based on the management of physical assets, definitivelyasset managementis the science and art to guide wealth management that includes the process of planning asset needs, obtaining, inventorying, performing legal audits, assessing, operating, maintaining, renewing or eliminating to transferring assets effectively and efficiently.Various notions of asset management say that asset management is a systematic process that maintains,upgrades, and operates assets in the most cost-effective way through the creation, acquisition, operation, maintenance, rehabilitation and removal of assets related to (1) identifying what assets need, (2) identify funding needs, (3) acquire assets, (4) provide logistical and maintenance support systems for assets, (5) remove or renew assets to effectively and efficiently meet the objectives.The essence of this concept is that asset management deals with applying sound technical and financial judgments and management practices to decidewhatassets need to meet the business objectives, and then to acquire and retain assets over the life of the asset up to the disposal.

2. Profitability Ratio

Profitability is a measure used to determine the company's ability to generate profits.The higher the level of profitability, the more detailed information submitted by managers in providing information to convince stakeholders involved. Some studies reveal a relationship between profitability with corporate social responsibility disclosure. Jati (Suryono and Prastiwi, 2011) states that profitability is the freedom and flexibility given to management to conduct and disclose broad social responsibility to shareholders, which means the higher the level of profitability, the higher the extent of corporate social responsibility disclosure.

3. Market Ratio

According to Brigham and Houston (2013: 150), the market ratio relates to the firm's share price to its earnings, cash flow, and book value.This ratio provides an indication for management about how investors view the risks and prospects of the company in the future.This ratio provides information on how much the public (investors) or shareholders appreciate the company, so they want to buy shares of the company at a price higher than the book value of shares (Sutrisno, 2003: 256).

Framework

Based on literature review and some previous research, the framework of this research can be drawn as follows:

1. Effects of sustainability reporting on asset management ratios.
2. Effect of sustainability reporting on profitability ratios.
3. Effect of sustainability reporting on market ratios.

Hypothesis

According to Sekaran (2013:83), hypothesis is a logically expected relationship between two or more variables expressed in the form of a testable statement. The hypothesis of this study are as follows:

H1 = Sustainability reporting affects asset management ratios.

H2 = Sustainability reporting affects profitability ratio.

H3 = Sustainability Reporting affects market ratio.

METHODOLOGY

Data and Research Design

This research used simple regression analysis method, with hypothesis testing as the purpose of the study. The type of investigation in this study is a causal study. Causal studies are studies conducted to find the cause of one or more problems (Sekaran and Bougie, 2013: 98). This study looks at the effect of sustainability reporting based on global reporting initiative on the financial performance of sharia companies in Indonesia.The time horizon used in this research ispooling/panel data.Pooling data / panel datais a combination oftime seriesandcross sectional,where this study took samples at several companies and several different times (Gujarati, 2003: 363).

Population and Sample

The population in this study are 30 companies listed on the Stock Exchange and listed asshares in JII in 2014-2015 usingpurposivesamplingmethod.Thepurposive sampling techniqueis the selection of the sample with a specific goal or target with no random pick (Indriantoro and Supomo, 2013: 131).The type of data used in this study is secondary data in the form of financial statements of companiesregistered in JII (Jakarta Islamic Index) in 2014-2015.

Secondary data is data obtained through existing sources and does not need to be collected by the researchers themselves.Secondary data usually comes from government publications, company-published information, library documents, statistical bulletins,onlinedata,websites, and the internet (Sekaran and Bougie, 2013: 51).Data collection techniques used in this study is the documentation, which is collecting data in the form of annual financial statements that have been available on the Indonesian Stock Exchange website (www.idx.co.id).

Variable Measurement

Dependent Variables

1. Asset Management Ratios

Ratio of activity is the relationship between the levels of company operations (in form of sales) with assets needed to support the activities of the company's operations(Hadiningsih,2007).This study uses total asset turnover which is a comparison between sales with total assets of company, where the ratio describes the speed of rotation of total assets in a certain period. Total assets turnover is a ratio that shows the level of efficiency on the overall use of company assets in generating a certain sales volume (Syamsuddin, 2009:19).

Total assets turnover is calculated as follows:

$$\text{TAT} = \frac{\text{Sales}}{\text{Total Assets}} \times 1 \text{ times}$$

2. Profitabilitas

Profitability is a measure used by companies in generating corporate profits. There are several measures to determine the profitability of the company, namely: return on equity (ROE) (Heckston and Milne, 1996), return on assets (ROA) (Belkaoui and Karpik, 1989; Heckston and Milne, 1996), earning per share (EPS) (Sembiring, 2005), and net profit margin (NPM) (Anggraeni, 2006). This study uses the size of ReturnonAssets (ROA). According to Brigham and Houston (2013: 148), ROA is the ratio of net income to total assets. This ratio could assess the performance of a company and try to be able to make appropriate decisions against the company.

The formula used is as follows:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

3. Market Ratios

The valuation ratio links the firm's stock price with earnings and book value per share.This ratio provides management guidance as to what investors think about past company performance and future prospects.To calculate this ratio, price to earnings ratio is commonly used.According to Moeljadi (2006: 75),Price Earnings Ratio (PER) shows how many investors are willing to pay for each dollar of reported earnings.By investors this ratio is used to predict the ability of the company to generate income in the future.

Price To Earnings Ratio, or abbreviated PER is the main tool of calculating a company's stock price compared to its revenue.The formula for calculating PER Ratio is

$$\text{PER} = \frac{\text{Price per share}}{\text{Earnings per share}} \times 1 \text{ times}$$

Independent Variable

The independent variable in this research is sustainability reporting of the company. Sustainability reporting variables are measured by the Sustainability Report Disclosure Index (SRDI). Based on GRI-G4, the disclosure of sustainability reporting includes 3 dimensions of economic, environmental, and social (Wijayanti, 2016).

GRI G4 is used as an indicator of sustainability report disclosure. These 91 items disclosed in the report comprised of:

a. 9 items of disclosure in the Economic Aspect
b. 34 items of disclosure in the Environmental Aspect
c. 12 items of disclosure in the Aspect of Human Rights
d. 16 items of Disclosure in the Aspect of Labor Practices and Decent Work
e. 9 items of Disclosure in Product Responsibility Aspect
f. 11 items disclosure in Social Aspects.

This variable is measured in accordance with SRDI (Sustainability Report Disclosure Index). SRDI assigns a value of 1 if the item is disclosed and otherwise gives a score of 0 if it is not disclosed. After scoring the entire item, the score is then summed to get the total score for each company. The formula for SRDI calculation is:

$$\mathrm{SRDI} = \frac{\mathrm{n}}{\mathrm{k}}$$

Details:

SRDI = Sustainability Report Disclosure Index

n = Number of items disclosed

k = Number of expected items

RESULTS

Results of this study shows thattotal assets turnoverwhich is the ratioof asset managementhas no effect onsustainability reportingon companies registered in JII.Thus this study rejects the first hypothesis (H1).The results of this study are in line with research conducted by Suryono and Pratiwi (2011) thatsustainability reportingdoes not affect the asset management ratio. On the other hand, the results of this study are not in line with research conducted by Tarigan and Lesmana (2014), which states thatsustainability reportinghas an indirect effect on asset management ratios.

Return on assetswhich is profitability ratioaffectsustainability reportingon companies registered in JII.Thus the results of this study accept the second hypothesis (H2).The results of this study are consistent with research by Suryono and Pratama (2011) that sustainability reportingaffect the profitability ratios.Price to earnings ratioas the market ratioaffectsustainability reportingon companies registered in JII.Thus the results of this study accept the third hypothesis (H3).These resultsare in line with research byGudry and Patter (2010)as well as Reddy and Gordon (2010)found thatsustainabilityreporting had aneffect on market ratios.

CONCLUSION

Based on the results and analysis of the research above, it can be concluded that:

1) Total assets turnover (first variable) does not affect sustainability reporting on companies registered in JII in 2014-2015
2) Return on assets (second variable) affects sustainability reporting on companies registered in JII in 2014-2015.
3) Price to earnings ratio (third variable) affects sustainability reporting on companies registered in JII in 2014-2015.

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