

THE IMPACT OF SUSTAINABILITY REPORTING ON COMPANY PERFORMANCE

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ABSTRACT

Sustainability reporting and company performance are the two factors that need to be studied in recent years. Sustainability Reporting is non-financial report that consists of three elements which are economic performance, environmental performance, and social performance. This research attempts to examine the relationship between sustainability reporting as a whole and each of the elements of sustainability reporting with company performance. It consists of 32 companies listed on Indonesian stock exchange during the period of year 2006-2009. The independent variables are sustainability reporting, economic performance disclosure, environmental performance disclosure, and social performance disclosure. These variables are measured by means of disclosure index. Sustainability Reporting Guidelines from Global Reporting Initiative (GRI) is used as the basis of calculating the index score. The dependent variable is Return on Asset (ROA) as a measure of economic performance. This research uses secondary data collected from company website and Indonesian stock exchange. The result shows that sustainability reporting influences company performance. However, partially, only social performance disclosure influences the company performance.

Key words: Sustainability reporting, ROA, Global Reporting Initiative.

DAMPAK KESINAMBUNGAN PELAPORAN PADA KINERJA PERUSAHAAN

ABSTRAK

Kesinambungan pelaporan dan kinerja perusahaan merupakan dua faktor yang menarik untuk dipelajari dalam beberapa tahun terakhir. Kesinambungan pelaporan adalah laporan non-keuangan yang terdiri atas tiga unsur yaitu kinerja ekonomi, kinerja lingkungan dan kinerja sosial. Penelitian ini bertujuan untuk menguji hubungan antara pelaporan keberlanjutan secara keseluruhan dan masing-masing unsur pelaporan keberlanjutan dengan kinerja perusahaan. Sampel penelitian ini adalah 32 perusahaan yang terdaftar di Bursa Efek Indonesia selama periode tahun 2006-2009. Variabel bebas adalah pelaporan keberlanjutan, pengungkapan kinerja ekonomi, pengungkapan kinerja lingkungan, dan pengungkapan kinerja sosial. Variabel ini diukur dengan menggunakan indeks pengungkapan. Panduan kesinambungan pelaporan dari Inisiatif Pelaporan Global (GRI) digunakan sebagai dasar perhitungan nilai indeks. Variabel terikat adalah Return on Asset (ROA) sebagai ukuran kinerja ekonomi. Penelitian ini menggunakan data sekunder yang dikumpulkan dari situs perusahaan dan Bursa Efek Indonesia. Hasil penelitian menunjukkan bahwa kesinambungan pelaporan berpengaruh terhadap kinerja perusahaan. Namun, hanya pengungkapan kinerja sosial yang mempengaruhi kinerja perusahaan.

Kata Kunci: Kesinambungan Pelaporan, ROA, Inisiatif Pelaporan Global.

INTRODUCTION

Recently, companies have been called upon to fulfill the needs of wide range of stakeholders who pay attention to company's value. They are interested in understanding the approach and performance of a company in managing the sustainability such as economic, environmental, and social aspects, including the potential for value created from managing sustainability. Besides providing financial information for shareholders, a company needs to publish non-financial information as well. Social responsibility reporting is the communication about a company's responsibility for social and environmental aspects surrounding the business. This reflects that companies owe stakeholders an annual accounting of their social and environmental performance as the financial information they provide to shareholders.

A survey conducted by KPMG shows that the growth of the number of companies issuing environmental, social report or sustainability reports, in addition to annual financial reports, is significant (www.industryweek.com). Nearly, more than half of the world's 250 largest companies issue sustainability reports (White, 2005). Reporting rates are high in developed countries such as France, Germany, Japan, the United Kingdom, and the United States. Reporting rates are highest in certain industries, e.g. chemicals and synthetics, pharmaceuticals, electronics, and computers, automotive, and oil and gas since the activities of those companies are sensitive to the environment (Choi, 2006, p. 162).

The increase in globally environmental awareness redirects the attention of companies to environmental sensitivity. Climate change and global warming become a top concern for performance of a company. This encourages companies to pay more attention to the environment surrounding them. High profit will no longer be the most important variable in business success. It means that selling products or delivering services should be followed by addressing the chal-

lenge of environmental change such as global warming, health care, poverty, and energy saving. In addition, many multinational business leaders are already demonstrating that tomorrow's most successful companies will be those that are willing to devote time and effort to incorporate social responsibility into their business models (industryweek.com). Hence, many multinational companies began to take sustainability reporting seriously. The term of sustainability report is recently used to cover the disclosure of a company's commitment on sustainable development. Many companies worldwide that have recently released sustainability report have a commitment to sustainable development. Responsibility towards environmental and social aspects which businesses have on the community is said to be related to the sustainable development.

Beside the increasing of global environmental awareness and the campaign of sustainable development, the increasing trend of sustainability reporting is also supported by the increasing number of guidelines provided by various government organizations and industry bodies (Basamalah et al, 2005). Global Reporting Initiative (GRI) is one of them. It is a network-based organization that has pioneered the development of the sustainability reporting framework. Many organizations follow the framework and standard of disclosing sustainability report according to GRI.

The perspective of sustainability provides a framework to create value which refers to both achieving sufficient profits and to satisfying the request of a diverse group of stakeholder (Lopez et al, 2007). There is a growing recognition among investment analyst that numerous business drivers upstream of a company's profit and loss statement, including environmental, social, and governance, contribute to long-term financial performance and investment returns (KPMG, 2008). There is also a perception that organizations are producing sustainability reports primarily as a public relations exercise

to give impression of concern over social and environmental issues (Hubbard, 2008). By disclosing sustainability reports, organizations will have generalized positive repercussions, where the aim is to fulfill the needs of different stakeholder, while also be benefited from the perspective of operations, finance, and reputation (Blyth, 2005, p.29 in Lopez et al, 2007). Investors are increasingly seeking to invest in socially responsible investments (SRI) in the companies that follow good social and environmental practices. Specific indexes have been created in developed country such as US-based Kinder and Dow Jones Sustainability index to assist investors who are willing to invest in socially responsible companies. This development shows that the pressure for sustainability reporting will continue to increase. Firms and investors recognize that investing in accordance with sustainability principle has the capacity to create long term value (Bebbington, 2001). These principles constitute a differentiating elements in establishing investments portfolio, as stakeholder believe accredited practices of corporate social responsibility lead to good economic-financial performance (Lopez et al, 2007).

Many articles state that sustainability has a capacity for long-term financial performance, investment return, and also value creation which refers to achieving sufficient profits. Companies that are apathetic to their environmental responsibility might experience eventual crashes on their stock price if their investors are rational in considering the future value of the firm based on its present state of environmental responsibility (Ngwakwe, 2008). Also, companies that pollute their environment might experience gradual depletion in earnings which could make their future solvency eroded. Thus, social responsibility behavior or sustainability practices may contribute to financial performance of a company.

In Indonesia, corporate social responsibility implementation is still a relatively new concept. *Undang-undang Perseroan Terbatas* 2007 chapter 5 article 74 states that firms

which conduct activity in relation with natural resources must allocate budgets for corporate social responsibility programs, and the programs must be run according to government regulations. Violation of the law is subject to sanctions depending on government regulations. By this regulation, the issue of how to disclose the corporate social responsibility practices in Indonesia and whether it affects the performance of the companies become obvious.

Researches on the relationship between corporate social responsibility practices or disclosure and corporate financial performance have been conducted in many countries. The result of the researches, however, is still inconsistent. Also, previous researches used corporate social responsibility reporting that focus only on environmental and social disclosure while the concept of sustainability reporting involves not only environmental and social performance but also the economic performance. This study is one of the continuances of the previous study about CSR (Corporate Social Responsibility). Therefore, this research attempts to analyze the relationship between the disclosure of sustainability performance and the impact towards company's performance using sustainability reporting framework developed by Global Reporting Initiative, a case study of Indonesian Stock Exchange. This research is expected to be useful for companies to not only take responsibility of the environment but also maintain sustainability practices since it may contributes to their financial performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Legitimacy Theory

Deegan (2000) states that legitimacy theory asserts that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being legitimate. Legitimacy theory relies upon the notion that there is a "social contract" be-

tween the organization in question and the society in which it operates. The concept is used to represent the multitude of implicit and explicit expectations that society has about how the organization should conduct its operations. It is assumed that society allows the organization to continue operations to the extent that it generally meets their expectations. Legitimacy theory emphasizes that the organization must appear to consider the rights of the public at large, not merely those of its investors. Failure to comply with societal expectations may lead to sanctions being imposed by society. According to this perspective, a company would voluntarily report their activities if management perceived that those activities were expected by communities in which it operate.

Stakeholder Theory

The basic perception of the stakeholder perspective developed in 1984 by Freeman (Freeman, 1984). Stakeholder theory has both an ethical (moral) or normative branch and a positive (managerial) branch. The moral (normative) perspective of Stakeholder Theory argues that all stakeholders have the right to be treated fairly by an organization, and the issues of stakeholder power are not directly relevant. Regardless of whether stakeholder management leads to improved financial performance, managers should manage the organization for the benefit of all stakeholders. One definition of stakeholders is provided by Freeman and Reed:

Any identifiable group or individual who can affect the achievement of an organization's objectives is affected by the achievement of an organization's objectives.

Clearly, many people can be classified as stakeholders based on the above definition, for example, shareholder, creditors, government, media, employees, employees' families, local communities, local charities, future generations, and so on. Within the ethical (moral) or normative perspective of Stakeholder Theory, all stakeholder have certain minimum rights that must not be vio-

lated. It can be acknowledged that this perspective can be extended to a notion that all stakeholders also have a right to be provided with information about how the organization is impacting on them, perhaps through pollution, community sponsorship, provision of employment, safety initiatives, and so on, even if they choose not to use the information, and even if they can not directly have an impact on the survival of the organization (Deegan 2000, p. 269).

Sustainability Reporting

Sustainability reporting is a new term which is widely used to explain the communication of the companies' effect on social, environmental and economic performance. Sustainability reports are also referred to as "triple bottom line reports" (profits, people, and planet). Many large companies publish such kind of reports especially for the company which is socially environmentally sensitive such as oil and gas, mining, chemical, automotive, computers, and electronics (Choi, 2006, p. 158). It is published to fulfill the need of wide range of stakeholders which is not only limited to investors and creditors, but also include employees, customers, suppliers, governments, activist groups, and the general public's.

Sustainability reporting is closely related with corporate social responsibility reporting. It has a voluntary character. Social responsibility reporting refers to the measurement and communication of information about company's effect on employee welfare, the local community, and the environment. Information on company welfare may involve working conditions, job security, equal opportunity, workforce diversity, and child labor. Environmental issues may include the impact of production process, products, and services on air, water, land, biodiversity, and human health (Choi, 2006, p. 158).

However, corporate social responsibility reporting focuses only on environmental and social disclosure, while the concept of sustainable development tied in sustainability

reporting involves broader area that covers environmental, social, and economic performances. As the campaign of sustainable development has been increase, many corporate non-financial reports, corporate social responsibility reports now have been re-packaged as sustainability report (Lopez et al, 2007).

Hubbard (2008) states the purpose of sustainability reporting is to provide information which holistically assesses organizational performance in a multi-stakeholder environment. In the social area, it is focus on contributing back to the society and community, providing growth and development opportunities for employees and improving relationships and practices for customers, suppliers, governments and communities. The notion of reporting against the three components (or bottom lines) of economic, environmental, and social performance is directly tied to the concept and goal of sustainable development (Deegan, 2000, p. 289).

Triple bottom line reporting, if properly implemented, will provide information to enable others to assess how sustainable an organization's or a community's operations are. The perspective taken is that for an organization to be sustainable (long-term perspective), it must be financially secure (as evidenced by such measures as profitability), minimize or ideally eliminate its negative environmental impacts and act in conformity with societal expectations. These three factors are obviously highly interrelated (Deegan, 2000, p.289).

The Concept of Sustainable Development

The development of non-financial reporting (which typically for organizations beginning the sustainability reporting journey) began in the US in the 1980s. The key focus at that time was on environmental reporting, as external stakeholders became concerned with the impacts of organizations on a wide variety of community resources (eg air, land and water emissions, waste and whether the resources would be sufficient for future

growth). In addressing the issue, Hubbard (2008) stated that the Brundland Commission (WCED 1987) developed the term "sustainable development" defining as:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

It is argued that globally we must ensure that our generation's consumption patterns do not negatively impact on future generation's quality of life (Deegan, 2000, p. 300). In 1998, Elkington developed the term "triple bottom line" to argue the case for reporting environmental and social performance together with economic performance. The triple bottom line concept implied that economic, environmental, and social performance were to be balanced and were of equal importance (Hubbard, 2008). Elkington's first theory is capitalism must satisfy legitimate demands for economic performance. Elkington echoes Adam Smith's theory that the firm has one and only one goal to satisfy the desires of shareholders by making profits. However, profit may not be attainable if the environment in which the business operates is neglected. Hence, according to Elkington, firms must also be accountable for social and environmental performance. The economic, social and environmental consciousness of corporations, the tripod goal, creates a balance that makes their operations and actions sustainable A corporation which accommodates the triple bottom line is contributing to sustainable development (Ngwakwe, 2008).

Corporate responsibility strategies are perceived to be related to sustainable development. Sustainability philosophy assumes that we abandon a narrow version of a classical economic theory and develop corporate strategies that include goals that go beyond just maximizing shareholder's interest. Attention is directed to the demands of a wider group of stakeholders since the firm's success depends on stakeholder's satisfaction (Buchholz and Roshenthal, 2005; Freeman, 1984; Hardjano and Klein, 2004; Michael and Gross, 2004 in Lopez et al, 2007)

Companies are becoming aware that they can contribute to sustainable development by reorienting their operations and process (Lopez et al, 2007). Sustainable development is obtained through the management of environmental, natural, economic, social, cultural and political factors. These issues are interrelated and therefore should not be considered independently (Sage, 1999, p. 196 in Lopez et al, 2007).

Furthermore, investors are increasingly seeking to invest in socially responsible investments (SRI) in those companies deemed to be following good social and environmental practices (Hubbard, 2008). They also need social, ethical, and environmental information. Naturally, a company which is sustainable will be less risky than one which is not. Consequently, most large companies in their reporting mention sustainability and frequently it features prominently (Aras and Crowther, 2009). Since the social, ethical, and environmental (SEE) performance of a corporation may directly impact on its financial position, the corporation has to provide sound (SEE) information to investors (Hummels and Timmer, 2004).

Global Reporting Initiative (GRI)

Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework. Sustainability reports based on the GRI framework can be used to benchmark organizational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organizational commitment to sustainable development; and compare organizational performance. GRI promotes and develops this standardized approach to fulfill demand for sustainability information.

As economy globalizes, new opportunities to generate prosperity and quality of life that are arising are accompanied by new risks to the stability of the environment. According to Global Reporting Initiative (2011), there is a contrast between the im-

provement in the quality of life and alarming information about the state of the environment and the continuing burden of poverty and hunger on millions of people. It raises an issue about how to create new and innovative choices and ways of thinking. New knowledge and innovations in technology, management, and public policy are challenging organizations to make new choices in the way their operations, products, services, and activities impact the earth, people, and economics.

It is the Global Reporting Initiative's (GRI) mission to fulfill this need by providing a trusted and credible framework for sustainability reporting that can be used by organizations of any size, sector, or location. Sustainability reports based on GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach. The GRI Reporting Framework is intended to serve as generally accepted framework for reporting on an organization's economic, environmental, and social performance.

Hypothesis Development

Researches about the effect of corporate social performance on financial performance have been conducted in many countries. The result, however, is still inconsistent. Wright and Ferris (1997) found a negative relationship, Teoh et al (1999) found no relationship between Corporate Social Responsibility and financial performance, and Aupperle et al (1985) also found no relationship between Corporate Social Performance and profitability. Another research conducted by Russo and Fouts (1997), Nakao et al (2007), King and Lenox (2001) and Cohen and Konar (2003) obtained the results that a firm's environmental performance do have a statistically significant positive relationship with the financial performance. Research done by Lougee and Wallace (2008) comparing US companies listed in Domini 400 and S&P 500 index, showed that companies with

more corporate social responsibility investments generated higher Return of Assets, suggesting that investments in corporate social responsibility are consistent with profit and long-term value maximization.

Almost all of those researches use Return on Assets, Return on Equity, and Tobin's Q as the measurement for the financial performance. The variation is on the measurement of environmental performance. Some of them use an index like TRI (Toxic Release Inventory), Nikkei Environmental Management Survey and CEP (Rankings of superiors environmental performance). There is also different measurement like Total Emission (by calculating the log of total facility emission of toxic chemicals), Relative Emission (measured by 4 digit Standard Industry Classification-SIC), and Industry Emissions (measure the degree to which a firms tends to operate in industry where production entails pollution).

Corporate Social Responsibility (CSR) is an important issue in contemporary international debates. Central to CSR is a concern for sustainability, particularly for environmental sustainability, as this is crucial for long-term success and even survival even in the financial terms by which firms normally judge their success. Indeed many corporate reports, which used to be designated as environmental reports and subsequently as CSR reports have now been repackage as sustainability reports (Aras and Crowther, 2009).

Several previous researches have proved that sustainability practices have a relationship with company's financial performance. Research conducted by Ngwakwe in 2008, in Nigeria, proves that firms which invest in social and environmental would have higher return on total assets (ROTA) compare to firms that do not invest. The variable of sustainability practices is measured with employee health and safety (EHS), Waste Management (WM), and Community Development (CD). Similar research also conducted in Japan by Cortez (2010) that attempts to find out the relationship between sustainable innovations and the impact on

financial performance. The sustainability practices are viewed from the company's innovation on environments. Using the statistical test, it reveals that environmental innovations show a linear relationship with the financial performance of Japanese automotive and electronics firms included in the study. Furthermore, research conducted by Nakamura (2011) with a data set of 3,237 Japanese firms states that in the short term, environmental investment does not affect firm performance significantly, whereas in the long term environmental investment increases firm performance significantly.

Sustainability reports involves disclosure on company's sustainability performance viewed from three aspects, they are economics, environmental, and social. Each aspect has its own performance indicator to measure each performance. The framework and guidelines for reporting such reports has been arranged in Global Reporting Initiative. It has been used by wide range of companies' around the world as a base to disclose sustainability reports.

Research conducted by Sekarsari (2008) had approved that there is a relationship between environmental disclosure and firm's profitability (measured in ROE, ROI, and NPM). Similar research conducted by Maharani (2003) also shows that there is a relationship between environmental disclosure with stock price and stock return. Sitepu (2009) attempted to find a possible relationship between corporate social responsibility disclosure and firm's financial performance. The results show that economic and environmental performance disclosures have significant positive relationship with financial performance (measured by ROA), while social performance disclosures does not show significant relationship.

Models of Framework

There are two models of framework will be proposed. The first model is presented in Figure 1. The diagram in Figure 1 shows that the dependent variable, company's performance will be influenced by independent

Figure 1
Model 1

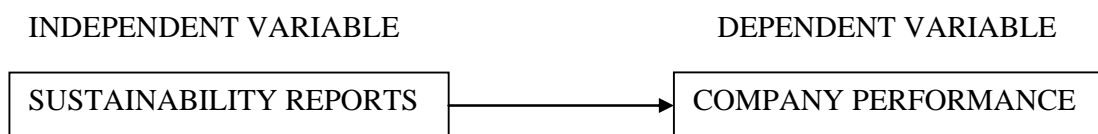
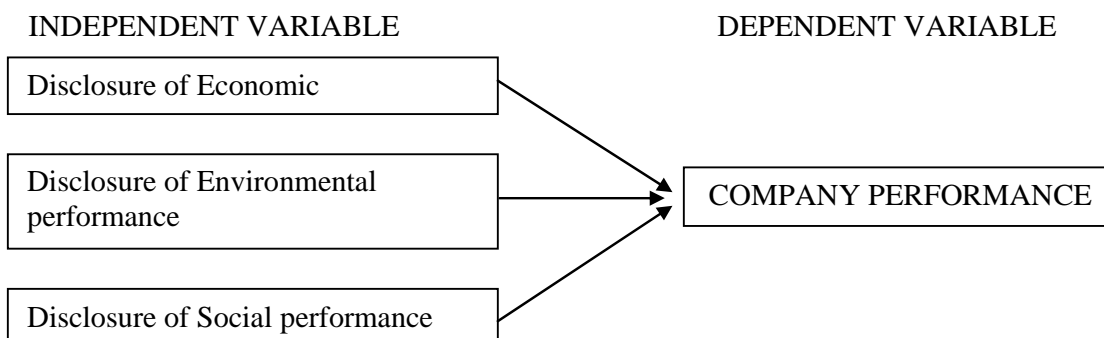


Figure 1
Model 2



variable which is represented by sustainability reports. Therefore, the hypothesis is:

H₁: The sustainability reports have an association with company's performance.

The second model of this research attempts to attest each component of sustainability reports and its influence to company financial performance. The disclosure of sustainability performance is divided into three aspects, i.e. economic performance, environmental performance, and social performance. The diagram is presented in Figure 2.

From the diagram in Figure 2, it can be inferred that each components of sustainability performance will be tested whether each of those has an influence on company's performance. Economic, environmental and social performance disclosures are expected to have a significant influence on company's performance.

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The economic aspect reported in sustainability reports is more on the company's contributions towards large economic system. The disclosure on man-

agement approach might include three economic aspects which are economic indicators, market presence, and indirect economic impact. There is also disclosure on the goals, policy and additional related information (GRI, Sustainability Reporting Guidelines). According to Sitepu (2009), the economic performance disclosure is approved to have a positive relationship with company's performance. This research aims to reconfirm the research result. Therefore the hypothesis is:

H₂: The disclosure of economic performance has an association with company's performance

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. The disclosure on environmental performance includes disclosure on management approach consist of environmental aspects such as materials, energy, water, biodiversity, emissions, effluents, and waste, products and services, compliance, transport, and overall, then goals relevant to environmental aspects, policy, organizational responsibility, training and awareness, monitoring and follow up, and additional contex-

tual information (GRI, Sustainability Reporting Guidelines). From the previous research, environmental performance disclosure is approved to have a positive relationship with company's performance (Sekarsari, 2008; Sitepu, 2009). This research attempts to reconfirm those research results. Thus, the hypothesis is:

H₃: The disclosure of environmental performance has an association with company's performance

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates. The social performance would be divided into four aspects which are labor practices and decent work, human rights, society, and product responsibility. The information to be disclosed would be similar like economic performance and environmental performance where it consists of management approach, goals, policy, organizational responsibility, training and awareness, monitoring and follow up, and additional contextual information. All of them would be reported based on the relation on social aspects (GRI, Sustainability Reporting Guidelines). In Sitepu (2009), the statistical result shows that the social performance disclosure does not influence the company's performance. In order to reconfirm, the hypothesis will be developed as follows:

H₄: The disclosure of social performance has an association with company's performance

RESEARCH METHOD

Population, Sample, and Data sources

The population in this research is all companies listed in Indonesian Stock Exchange from the period of 2006-2009. The criteria for companies being selected are:

Non-financial companies listed continuously in Indonesian stock exchange between year 2006-2009

Those companies publish annual report continuously from year 2006-2009

Those companies publish sustainability report continuously from year 2006-2009

Data for this research is secondary data (annual report and sustainability report) collected from Indonesian Stock Exchange Website, the company's website and Capital Market Information Centre.

Definition of Operational Variables

The dependent variable used as a measure of company performance is return on assets (ROA). Return on asset is one of profitability ratios which measures the income or operating success of a company for a given period of time (Weygandt, 2007, p. 793). In addition, ROA is known as the variable to measure economic performance (Dincer, 2011; Nakamura, 2011) and more related to efficiency compared to Return on Equity (Lorenzo et al, 2009).

The formula of ROA:

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \quad (1)$$

This research proposes two models to be tested. In the first model, the independent variable is sustainability performance disclosure index.

Sustainability reports involves disclosure on company's sustainability performance viewed from three aspects, they are economics, environmental, and social. Hence, in the second model there are three independent variables. Those are:

1. Economic performance disclosure
2. Environmental performance disclosure
3. Social performance disclosure

Those four independent variables will be measured by scoring index based on performance indicators provided in Global Reporting Initiative Guidelines (GRI guidelines). Global Reporting Initiative (GRI) *Sustainability Guidelines on Economic, Environmental, and Social Performance* is the most prominent current reporting guidelines (Morhardt et al 2002). Research conducted by Dincer (2011) also suggests adopting the GRI format as a CSR reporting model to be used by the firm for disclosing information. The formula to calculate the index score is:

$$Index = \frac{n}{k} \quad (2)$$

Table 1
Table of Sampling

Criteria	N
Companies listed on Indonesian Stock Exchange	491
Financial Companies	-110
	381
Companies delisted during 2006-2009	-131
	250
Companies do not publish sustainability report	-218
Total Companies	32

Table 2
Sample Description Based on Industrial Sector

Industrial Sector	Number of Company	Percentage (%)
Mining	7	22
Trade, services and investment	6	19
Consumer goods	5	16
Basic industry and chemicals	5	16
Infrastructure, utilities, and transportation	4	12
Miscellaneous industry	2	6
Agriculture	2	6
Property and real estate	1	3
Total companies	32	100

Notes:

n = number of index which is fulfilled by the company,

k = the maximum index which should be fulfilled by the company.

For measuring sustainability performance disclosure in total, the maximum index which should be fulfilled is 50. In partial, the maximum index for economic performance disclosure, environmental performance disclosure and social performance disclosure are 7, 17, and 26 respectively.

Empirical Model

For the first model, single linear regression is used. The model is presented below:

$$Y = a + b_1X_1, \quad (3)$$

where:

Y = company performance (ROA)

a = constant

b_1 = coefficient of regression

X_1 = sustainability reports index.

The second model would be using multiple regression method. The equation is presented below:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e, \quad (4)$$

where:

Y = ROA (Return on Assets)

a = constant

b_{1-3} = regression coefficient

X_1 = Economic performance disclosure index

X_2 = Environmental performance disclosure index

X_3 = Social performance disclosure index

Result and Discussion

Based on the data on Table 1, the number of companies that publish sustainability reports continuously from 2006-2009 is less than 13%. It may be due to the concept of corporate social responsibility and sustainability reports are still relatively new for Indonesian companies.

Table 3
Descriptive Statistic

Variable	Mean	Std. Deviation
ROA	.102	.125
Sust	.412	.226
Eco	.574	.229
Env	.344	.269
Soc	.408	.239

Table 4
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.271 ^a	0.073	0.066	12.105

a. Predictors: (Constant), X sus

b. Dependent variable: Y roa

Table 5
ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	1464.006	1	1464.006	9.999	0.002 ^a
Residual	18463.920	126	146.539		
Total	19927.926	127			

a. Predictors: (Constant), X sus

b. Dependent variable: Y roa

The sample covers 8 industrial sectors. The majority sample is companies from mining industry (22%), followed by trade, services and investment industry (19%). The description of sample based on industrial sector is shown in Table 2.

The Table 3 describes that the mean value of ROA is 10.2%. The mean value of sustainability report is 41.2%. It illustrates that the sustainability reports only cover about 40% of the items that should be disclosed according to GRI. The mean value of economic performance is the highest (57.4%) compared to it of environment (34.3%) and social performance (40.8%). It shows that most of companies disclose economic performance more than environment and social performance.

DATA ANALYSIS AND DISCUSSION

First Model

The coefficient correlation between the independent variables and the dependent variable (R) is 0.271 (see Table 4). It implies that the relationship between sustainability reports and company's performance (ROA) is 27.1 %. The coefficient of determination (R-square) is 0.073. This implies that only 7.3% of the variation of ROA is explained, or accounted for, by the variation of sustainability reports. The rest, which is 92.7 %, is explained by other factors.

F-test

Regression coefficients were tested using F-test to determine the validity of regression models to be used. For the first model, the value of F presented on the ANOVA table as

Table 6
Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig
	B	Standard Errors	Beta		
(Constant)	4.107	2.206		1.861	0.065
Xsus	14.885	4.709	0.271	3.161	0.002

a. Dependent variable: Y roa

Table 7
Model Summary

Model	R	R-Square	Adjusted R Square	Standard Error of the Estimate
	0.524 ^a	0.274	0.248	0.803

a. Predictors: (Constant), $\ln Y_{t-1}$, X1(Eco), X2(Env), X3(Soc)

b. Dependent variable: $\ln Y$ (ROA)

Notes: The lag variable, $\ln Y_{t-1}$, should be included in this second regression model due to autocorrelation problem.

Table 8
ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	27.306	4	6.826	10.583	0.000 ^a
Residual	72.246	112	0.645		
Total	99.552	116			

a. Predictors: (Constant), $\ln Y_{t-1}$, X1(Eco), X2(Env), X3(Soc)

b. Dependent variable: $\ln Y$ (ROA)

shown in Table 5 is 9.999 which is higher than the F table. With the degree of freedom 1 and residual 126, the F table is 3.84 and the probability (0.002) is smaller than 0.05. Therefore, the first regression model can be used for the next analysis.

T-test

The result of t-test for the first hypothesis is presented in the Table 6. The data in Table 6 shows that the coefficient for independent variable is 14.885 and the probability is 0.002 (p value < 0.05). It can be inferred that the sustainability reports has a positive association to company's performance. Thus, the first hypothesis (H_1) that sustainability reports has an association with the company's performance is accepted.

Second Model

The coefficient correlation (R) is 0.524 (see Table 7). It means that the value of coefficient correlation between the independent variables and the dependent variable is 0.524. It implies that the relationship between sustainability performance (economic, environmental, and social) and company's performance (ROA) is 52.4 % which is strong enough. The adjusted R-square is 0.248. This implies that 24.8% of the variation of ROA is explained, or accounted for, by the variation of sustainability performance. The rest, amounting at 75.2%, is explained by other factors.

F test

The value of F in the ANOVA table as shown in Table 8 is 10.583, much higher

Table 9
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig	Co linearity Statistics	
	B	Std. Errors	Beta			Tolerance	VIF
(Constant)	0.921	0.264		3.483	0.001		
X1 (Eco)	-0.533	0.540	-0.133	-0.986	0.326	0.355	2.815
X2 (Env)	-0.057	0.504	-0.017	-0.112	0.911	0.284	3.515
X3 (Soc)	1.184	0.536	0.313	2.208	0.029	0.323	3.092
Ln Yt-1	0.455	0.086	0.439	5.286	0.000	0.000	1.065

than the value of the F table. With the degree of freedom 4 and residual 112, the value of F table is 2.45 and the probability (0.000) is smaller than 0.05. It means that the second regression model can be applied for the next analysis.

T-test

From the Table 9, it can be described that: The coefficient of variable X1 (eco) is -0.5333 shows that the variable has negative association to dependent variable. However, the probability (0.326) is greater than 0.05 (p value > 0.05). It means that economic performance disclosure does not influence company’s performance. Therefore, the second hypothesis (H2) is rejected.

The coefficient of variable X2 (env) is -0.057 illustrates that the variable has negative association to dependent variable. Nevertheless, the probability is 0.911 which is much greater than 0.05 (p value > 0.05). It implies that environmental performance disclosure does not influence company’s performance and the third hypothesis (H3) is rejected.

The coefficient of variable X₃ (soc) is 1.184 demonstrates that the variable has positive association to dependent variable and the probability is 0.029 which is smaller than 0.05 (p value < 0.05). It indicates that social performance disclosure does influence company’s performance significantly and the forth hypothesis (H₄) is accepted.

It can be implied that the sustainability reports influences company’s performance

(ROA). However, further analysis shows only social performance disclosure that influences ROA.

The result of this present research is conflicting with the previous research. First, partially the result of the test shows that economic performance disclosure does not significantly influence company’s performance. This result is in contradiction with the research result of Sitepu (2009) that shows a significant relationship between economic performance disclosure and financial performance.

Second, the result of this research shows that the environmental performance disclosure does not influence company’s performance. This is also in contradiction with Sitepu (2009), and Sekarsari (2008) that find that the disclosure of environmental performance affect the performance of the company. In addition, this research result does not support Ngwakwe (2009) and Cortez (2010) which come up with the conclusion that environmental performance positively influences company’s performance.

Third, this present research shows that the social performance disclosure does significantly influence company’s performance. Again, this is in contradiction with Sitepu (2009) which come up with the conclusion that social performance disclosure does not significantly influence company’s performance. However, this result is in conformity with Ngwakwe (2008) that shows positive relationship between social performance and company’s performance.

This research result confirms to the statement that many existing research results are inconclusive, reporting positive or sometimes negative results. Based on McWilliams (2000), existing studies of the relationship between social responsibility performance and company performance suffer from several important theoretical and empirical limitations. One major concern is that those studies sometimes omit variables that have been shown to be important determinants of company performance. Based on King and Lenox (2001), variables that are important to be determinants of company performance includes firm size, capital intensity, growth of the firm, leverage, and research and development intensity. This present research does not include those important variables.

A longer time frame is needed to analyze whether the practice of social responsibility or sustainability begin to influence company performance positively. Social demands on companies with respects to sustainability also must be taken into account. In society, changes the value increase normative demands of CSR (Lopez, 2007). It means that, positive consequences, between sustainability performances towards company's performance, be achieved only if the sustainability practices are integrated into business model and strategic decision. In addition, time frame of research influences the results. Thus, this research needs longer time frame in evaluating the relationship between economic and environmental disclosure and company's performance.

CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATIONS

It can be generalized that sustainability reports does have an association with company performance. However, further analysis shows that only social performance disclosure has an association with company's performance. For companies, improving sustainability performance is important. Even it is as important as improving company's financial performance. Sustainability means the development that meets the needs of the

present without compromising the ability of future generations to meet their own needs. It means that, in running the business, a company need to concern to the needs of future generations.

The consumptions made by a company as the input to produce and to provide goods and services, should not negatively impact the quality of the consumption of future generation. It is important to remind, especially for companies, that generating profit is not merely the aims of the business. Being care and responsible to the environment become important aspects in running the business in order to increase the company's reputation, increase profitability and bring benefits to the entire stakeholders.

Obviously, stakeholders such as employees, suppliers, governments, activist group, investors, and communities' around the business are very important to be considered. Without the credibility and trust that is put by them, business is impossible to run. In addition, this world now has been facing global warming and climate change problem. The awareness of a company regarding those problems is a must. That is why besides improving the profitability, a company should be responsible for managing the sustainability.

For investors, it is important for them to be selective in making investment decision. Besides making investment decision based on information of financial performance, it would be better if investors also consider about the performance of companies in managing sustainability. They should consider about this non-financial aspect in making investment and lending decision. Investing in profitable and socially responsible companies would be better than investing in a company with a high profitability but have been neglecting the environment. High profitability might be look good in the eye of only one part of stakeholder that is investors. Whereas, high performance of sustainability might be look good in the eye of the entire stakeholders. The research result that sustainability performance does significantly

influence company performance may support a decision of a company to improve its performance in managing sustainability.

This research possesses some limitations. Firstly, the sample is only 32 companies. There are still few companies that publish sustainability reports. Most of those companies report are still in the form of CSR report. For the next coming year, the number of company publish sustainability report might improve as the improvement in stakeholder demand and environmental concern. The more the companies observed, the more the sample, the more representative, the better the result could be. Secondly, the observation is only four years from 2006-2009.

For the next researcher, due to inconsistent result, it is better to consider the most appropriate measurement of sustainability performance, and to reevaluate other important variables that could determine company's performance. In addition, future research may consider longer time frame in evaluating the relationship between sustainability reports and company's performance since sustainability performance may affect the financial performance in the long term.

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