

Financial Performance and the Effect on Sustainability Reports Disclosure, Company Size, and Solvency

Endang Kartini

Universitas Paramadina, Indonesia
kartiniendang1104@gmail.com

Submitted: 09th Jan 2023 | **Edited:** 04th March 2023 | **Issued:** 01st June 2023

Cited on: Kartini, E. (2023). Financial Performance and the Effect on Sustainability Reports Disclosure, Company Size, and Solvency. *KINERJA: Jurnal Manajemen Organisasi dan Industri*, 2(1), 21-30.

ABSTRACT

The company has the goal of getting profits, by having profits it will be easier to carry out its operational activities. Companies that are very effective and efficient in carrying out their operational activities must have good financial performance. This research was conducted with the aim of knowing and analyzing the effect of disclosure of sustainability reports, company size and solvency on the company's financial performance. To answer the objectives of this study requires a quantitative method, the sample used in this study is a company listed on the SRI-Kehati index on the Indonesia Stock Exchange which consists of 13 companies. Determination of the sample in this study using the technique purposive sampling. The data analysis used is multiple regression analysis of panel data. The proxy used for the company's financial performance in this study is Return on Assets (ROAs). The results of this study indicate that disclosure sustainability reports, company size and solvency companies simultaneously have a significant influence on the company's financial performance.

Keywords: Sustainability Report, Company Size, Solvency, Financial Performance, Performance

INTRODUCTION

All companies have the same goal, which is to get high profits. By having a high profit, the company will be easier to carry out its operational activities. Companies that are very effective in carrying out their operational activities must have good financial performance. Financial performance is a description of the company's financial condition in a certain period both from the aspect of raising funds and distributing funds, which are usually measured by indicators of capital adequacy, liquidity, and profitability (Purba, 2018). Financial performance is measured using financial analysis tools by looking at financial statements, so that it can be used as a way to assess whether the company has performed optimally, by utilizing its resources.

That way in Indonesia, almost all companies only focus on their financial statements. Whereas according to (Purba, et, al., 2020), the purpose of a business is not

only to gain profit or profit. But also must be responsible to society (people) and the earth (planet). These three things are often called the triple bottom line. So that a sustainability report is needed, a report issued by a company to disclose the company's responsibilities on economic, environmental and social aspects. This report is different from the financial report, which focuses only on the company's financial problems. Disclosure of this sustainability report aims to communicate the company's economic, environmental and social performance commitments to stakeholders in a transparent manner. The company that publishes this report is considered to have added value because it shows that the company is running its business in accordance with existing norms and is responsible for all its activities both from an economic, social and cultural perspective.

This report has been carefully prepared, in accordance with the facts on the ground and can be accounted for because this is one of the realization efforts to become an accountable company and be able to maintain its business. Through this report, investors will get a clear and open picture of all sustainable development activities that have been carried out by the company. Investors tend to invest in companies that are transparent, open to company information, completeness, and accuracy (Junardi, 2019). So that this report can be used by investors as a consideration before investing.

The application of this report to a company makes the company more concerned and pays attention to social and environmental conditions in obtaining profits. There has been a lot of environmental damage caused by the company's business activities, which are detrimental to the Indonesian people. For example, environmental damage due to coal waste along the Air Bengkulu watershed to the coast in Bengkulu City and Central Bengkulu that occurred since the 1980s, the Lapindo Mud in Sidoarjo which until now has no solution, the construction of a cement factory in Rembang which is troubling residents because of the surrounding natural resources. exploited, etc.

Solvency is an alternative way that companies can do to increase profits in the future. The use of additional capital or debt originating from outside the company is expected to make it easier for the company to carry out operational or investment activities, so that the profits obtained will also increase greatly compared to if they do not use the debt. If the company's profits increase, the profits obtained by investors will also increase (Martha, & Prisilia, 2021). The use of large debt resulted in an increase in interest expenses. If this interest expense increases but the company's profit does not increase, it

can be said that financial performance decreases. But the increased interest expense will also reduce taxes, so debt (solvability) is said to be able to affect the state of the company's financial performance.

Solvency in the financial statements describes the portion of debt owned by the company in carrying out its operational or investment activities. With the published financial statements, the financial performance can be calculated so that just by looking at it you will know how much the company uses debt to run its company's business (Setiawan, & Hizazi, 2019).

In the research (Yundari, et, al., 2022) said that the disclosure of sustainability reports in the economic and environmental aspects has a positive and significant effect on the company's financial performance, while the disclosure of sustainability reports in the social aspect has an insignificant positive effect on the company's financial performance. Then in the research of (Said, et, al., 2020) said that the disclosure of sustainability reports on the social aspect only has an influence on financial performance, while in the economic and environmental aspects it has no effect on the company's financial performance. (Putri, et, al., 2022) says that the disclosure of sustainability reports on the social aspect only has an influence on the company's financial performance, while in the economic and environmental aspects it has no effect on the company's financial performance. It can be concluded that some of the studies above have different results so I want to find out more about the effect of the disclosure of sustainability reports on financial performance, using more recent data.

THEORETICAL BASIS

Stakeholder

According to (Ersyafdi, & Irianti, 2022) a stakeholder is a group or individual who can influence and or be influenced by the achievement of certain goals. According to (Januarty, 2019) there are two forms of stakeholder, namely old corporate relations and new corporate relations. Old corporate relations means that the company in each of its activities has a separate implementation of each job function. For example, the finance department will only dwell and focus on the company's finances, without caring about other parts. Then the marketing department only focuses on how to market the product according to the existing target. The existence of a separation of functions like this makes

companies in each field not have the same goal, so that in carrying out company activities there are often unequal goals that can reduce company performance. The relationship that exists between superiors and employees is also only one-way, which means that employees must always obey orders from superiors without being able to provide suggestions or opinions for the good of the company going forward.

Legitimacy Theory

According to (Setiawan, & Hizazi, 2019) legitimacy theory explains that companies must always ensure that they operate, carry out their activities according to the framework and norms that exist in the environment where the company is located. The company must also ensure that the activity is accepted by parties outside the company as legitimate. This theory also explains that the report on the disclosure of corporate responsibility must be carried out, published in accordance with the facts so that the activities and performance of the company can be accepted by the surrounding community.

Sustainability Report

Sustainability Reporting is a form of report carried out by a company in order to disclose or communicate to all stakeholders about environmental, social and good governance (LST) performance in an accountable manner (Yundari, et, al., 2022).

The sustainability report is a model for reporting corporate information to stakeholders that integrates financial reporting, social reporting, environmental reporting and corporate governance reporting in an integrated manner in one reporting package. Sustainability reports are made in order to assist companies in planning, preparing, reporting information about the company's commitments, activities, and accountability for its performance over a certain period. Related to the company's economic, social, and environmental issues. This report is intended for internal and external shareholders (Putri, et, al., 2022). With this report, the company is expected to be able to realize the company's long-term vision and mission.

Company Size

According to (Sabrina, & Betri, 2018) is the size of a company that can be seen from total assets, total sales, total profit, tax expense, and others. According to (Hartono, 2008; in Sari 2019), company size is the size of a company that is calculated from the logarithmic value of the company's total assets. Then according to (Nugroho, & Lindrawati, 2021) it is stated that company size is the division of companies into several

groups, namely large companies, medium companies, and small companies. This form of division is used to see the total assets owned by the company. From some of the statements above, it can be concluded that company size is one way of assessing the company by looking at the total assets owned by the company. With this division, the company can be said to be a large company if its total assets are above the company's average income (Wardhani, et, al., 2020).

Company Solvency

According to (Purba, et, al., 2020), leverage (solvability) can be used to increase the expected profit. Solvency is the use of assets and sources of funds by companies that have fixed costs with the intention of increasing the potential profits of shareholders (Sartono, 2008: in Syaifullah 2018). Solvency is the use of fixed assets or sources of company funds to use these funds in carrying out company operations (Martha, & Prisilia, 2021). The company must bear the costs or expenses in the future with the aim of increasing the level of income or profits of the company. It can be concluded that solvency is the use of sources of funds originating from third parties (debt), where this debt has a fixed burden that must be paid by the company along with interest that has been calculated in the future, with the aim of this fund being able to increase the company's capital structure so that it can generate income. greater profits for the company.

Financial Performance

Financial performance is the result of company decisions based on an assessment of the company's ability from the aspects of liquidity, activity, solvency, and profitability made by parties that have been determined by the company Sholihah, & Susilo, 2021). Financial performance is used by the company's management as a guide in managing the resources that have been entrusted to the company. Financial performance is measured using existing data derived from financial statements. This financial performance report is used as a description of the company's financial condition in the past and can be used as a prediction of future financial conditions (Khotimah, & Subakir, 2018).

METHOD

This type of research is a quantitative research type. Quantitative research is the process of finding knowledge that uses data in the form of numbers as an analyzer of what will be found out in a study. The type of data used in this study is a combination of

cross section and time series data or what is called panel data, because in this study data is needed for the 2014-2018 period in several companies that have complied with the requirements of this study. This type of data is called secondary data, namely data obtained indirectly from the main source (the company that is the object of research).

The sampling method in this study used purposive sampling. Purposive sampling is a sampling technique of data sources with certain considerations or criteria. From this research, researchers will use companies listed in the SRI-KEHATI index on the Indonesia Stock Exchange.

RESULT

Multiple Linear Analysis

Table 1. Multiple Linear Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.751109	1.367048	-2.012445	0.0509
X1	-0.924741	0.453286	-2.040082	0.0480
X2	1.233515	0.096522	12.77957	0.0000
X3	0.096771	0.041746	2.318096	0.0256
X4	-0.574907	0.265771	-2.163174	0,0366
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.901014	Mean dependent var	0.271971	
Adjusted R-squared	0.866369	S.D. dependent var	0.192587	
S.E. of regression	0.070401	Akaike info criterion	-2.242215	
Sum squared resid	0.198253	Schwarz criterion	-1.694760	
Log likelihood	76.66091	Hannan-Quinn criter.	-2.030510	
F-statistic	26.00705	Durbin-Watson stat	1.771993	
Prob(F-statistic)	0.000000			

Source: Output Eviews, 2022

From table shows that the regression equation obtained is as follows:

$$Y = -2.7511 - 0.9247X1 + 1,2335X2 + 0.09677X3 - 0.05749X4 +$$

From the panel data regression equation obtained, it can be explained that the disclosure of sustainability reports has a negative effect, which means that when more items are disclosed in this report, the financial performance will decrease. While the size of the company has a positive influence, which means that the larger the company, the better its financial performance. Solvency measured using DAR has a positive effect, which means that when a company has a high DAR value, its financial performance is

also getting better.

Determination Coefficient

Testing Determination coefficient testing was conducted to measure how much the independent variables in the study, namely the disclosure of sustainability reports, company size and company solvency were able to explain the dependent variable, namely the company's financial performance as measured by ROA (Return on Assets).

In the table, it can be seen that the R-square 0.9010. This value means that the sustainability report disclosure variables, company size, and company solvency as measured using the Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER) are able to explain the financial performance variable of 90.10%. The remaining 9.9% is explained by other factors that are not included in the independent variables of the study.

Simultaneous Significance Test

Table shows the value of prob (F statistics) of 0.0000 which means <0.05 . In addition, it can also be seen from F statistics, which is 26.0070, while the F table value is 2.56. If the calculated F value $>$ F table then H_0 is rejected and H_1 is accepted. In this study, it shows that $26.0070 > 2.56$ means that there is a significant influence between the variables of sustainability report disclosure, company size and company solvency simultaneously (simultaneously) on the company's financial performance variables.

Disclosure of sustainability reports has an effect on the company's financial performance

In the table, the coefficient value of X1 (disclosure of sustainability reports) is -0.9247 and a significance value of 0.0480 which means it is smaller than 0.05. This means that the disclosure of sustainability reports has a significant and negative effect on the company's financial performance. It can be concluded that there is a negative correlation, which means that if the disclosure value of the sustainability report increases, the Return on Assets or financial performance will decrease.

Company size affects the company's financial performance

In the table, the coefficient value of X2 (firm size) is 1.2335 and the significance value is 0.0000, which means it is smaller than 0.05. This means that the size of the company has a significant and positive effect on the company's financial performance. It can be concluded that there is a positive correlation, which means that the larger the company, the better the financial performance of the company because large companies

are usually more stable and trusted by investors in the face of failure.

Solvency as measured using the Debt to Equity Ratio (DER) has an effect on the company's financial performance

While X3 (company solvency as measured using the Debt to Equity Ratio) has a coefficient value of -0.5749 and a significance value of 0.0366 which means it is smaller than 0.05 . This means that the company's solvency as measured using the Debt to Equity Ratio has a significant negative effect on the company's financial performance. This means that the higher the debt level of the company that uses its capital to borrow, it will reduce the company's financial performance.

When the Debt to Equity Ratio is higher, it means that the company has a relatively larger amount of debt compared to its equity. A high Debt to Equity Ratio implies that the company relies more on borrowed funds, which can have implications for its financial performance and risk profile.

A significant negative effect of the Debt to Equity Ratio on financial performance suggests that a higher level of debt could have adverse consequences for the company. Some possible reasons for this negative relationship include:

1. Interest Expense. High levels of debt can lead to higher interest expenses, which can reduce the company's net income and profitability.
2. Financial Risk. A high Debt to Equity Ratio indicates that the company has a significant amount of debt relative to its equity, which may increase financial risk and make the company more vulnerable to economic downturns or changes in interest rates.
3. Debt Servicing. As the company takes on more debt, it needs to allocate more resources to service its debt obligations, leaving less capital available for other operational and investment needs.
4. Creditworthiness. A high Debt to Equity Ratio can negatively impact the company's creditworthiness in the eyes of lenders and investors, potentially leading to higher borrowing costs or limited access to financing.

It's important to note that the relationship between the Debt to Equity Ratio and financial performance may vary across different industries and companies. A higher level of debt may be common and acceptable in some industries, while it could be riskier in others.

Companies need to strike a balance between using debt for growth opportunities and managing the associated financial risks. Maintaining a healthy and sustainable capital structure is essential to ensure the company's long-term financial health and performance.

Overall, a significant negative effect of the Debt to Equity Ratio on financial performance suggests that it is crucial for companies to carefully manage their debt levels and financial leverage to optimize their financial performance and mitigate potential risks.

CONCLUSION

Research results can be concluded that:

1. Disclosure of sustainability reports, company size and solvency (Debt to Assets Ratio and Debt to Equity Ratio) of the company together (simultaneously) have a significant influence on the company's financial performance which is measured using ROA (Return On Assets).
2. Disclosure of individual sustainability reports (partial) has a significant and negative effect on the company's financial performance as measured by ROA (Return on Assets).
3. The size of the company individually (partial) has a significant and positive influence on the company's financial performance as measured by ROA (Return on Assets).
4. The solvency of the company which is measured using the Debt to Assets Ratio (DAR) individually (partial) has a significant and positive effect on the company's financial performance as measured by ROA (Return on Assets).
5. The solvency of the company as measured using the Debt to Equity Ratio (DER) individually (partial) has a significant and negative effect on the company's financial performance as measured by ROA (Return on Assets).

REFERENCES

- Ersyafdi, I. R., & Irianti, P. W. D. (2022). Pengaruh Kinerja Keuangan, Tata Kelola Perusahaan dan Agresivitas Pajak terhadap Pengungkapan CSR. *SAR (Soedirman Accounting Review): Journal of Accounting and Business*, 6(2), 57-72.
- Januarty, T. A. (2019). Pengaruh Struktur Kepemilikan, Ukuran Perusahaan, Dan Corporate Social Responsibility (CSR) Terhadap Kinerja Keuangan Perusahaan Manufaktur Yang Terdaftar Di Bei Periode 2016. *JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)*, 3(2), 298-314.
- Junardi, J. (2019). Pengaruh Pengungkapan Corporate Social Responsibility Terhadap

- Nilai Perusahaan Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *JURKAMI: Jurnal Pendidikan Ekonomi*, 4(2), 68-79.
- Khotimah, K., & Subakir, S. (2018). Pengaruh Pengungkapan Sustainability Report Terhadap Kinerja Keuangan Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2015. *Majalah Ekonomi*, 23(1), 83-94.
- Martha, L., & Prisilia, M. (2021). PENGARUH SOLVABILITAS, PORSI SAHAM PUBLIK DAN UKURAN PERUSAHAAN TERHADAP PENGUNGKAPAN LAPORAN KEUANGAN PERUSAHAAN DI BURSA EFEK INDONESIA TAHUN 2015-2019. *Procuratio: Jurnal Ilmiah Manajemen*, 9(4), 381-392.
- Nugroho, Y. F., & Lindrawati, L. (2021). Pengaruh Struktur Kepemilikan, Kinerja Keuangan, dan Ukuran Perusahaan terhadap Financial Restatement. *Jurnal Akuntansi*, 15(2), 154-177.
- Purba, P. M. (2018). Analisis Kinerja Keuangan, Ukuran Perusahaan Dan Return Saham Terhadap Tingkat Pengungkapan Laporan Tahunan Dengan Pertumbuhan Perusahaan Sebagai Variabel Moderasi. *Methosika: Jurnal Akuntansi dan Keuangan Methodist*, 2(1), 49-65.
- Purba, P. M., Muchlis, M., & Mulyani, S. D. (2020). Pengaruh profitabilitas, Solvabilitas, Likuiditas, Umur Listing dan Struktur Kepemilikan terhadap Pengungkapan Laporan Tahunan dengan Nilai Perusahaan sebagai Variabel Moderasi. *Methosika: Jurnal Akuntansi dan Keuangan Methodist*, 3(1), 65-82.
- Putri, I. H., Meutia, I., & Yuniarti, E. (2022). Faktor yang Mempengaruhi Pengungkapan Materialitas pada Laporan Keberlanjutan. *E-Jurnal Akuntansi*, 32(7), 1771-1784.
- Sabrina, N. S., & Betri, B. (2018). Pengaruh Profitabilitas Dan Leverage Terhadap Pengungkapan Islamic Social Reporting Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *BALANCE: Jurnal Akuntansi Dan Bisnis*, 3(1), 324-333.
- Said, D., Junaid, A., & Qamar, N. (2020). Pengaruh Pengungkapan Laporan Keberlanjutan terhadap Kinerja Keuangan Perusahaan. *Jurnal Ekonomika*, 4(2), 106-119.
- Setiawan, K., & Hizazi, A. (2019). Pengaruh Profitabilitas, Solvabilitas, dan Ukuran Perusahaan Terhadap Pengungkapan Sustainability Report Pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia dan Bursa Efek Malaysia Periode 2013-2017. *Jurnal Akuntansi & Keuangan Unja*, 4(2), 30-40.
- Sholihah, M., & Susilo, D. E. (2021). Pengaruh Kinerja Keuangan, Ukuran Perusahaan, dan CSR terhadap Harga Saham Pada Perusahaan Properti di Bursa Efek Indonesia 2018-2020. *Disclosure: Journal of Accounting and Finance*, 1(2), 115-134.
- Wardhani, P., Wiyadi, W., & Susila, I. (2020). Pengaruh Pengungkapan CSR, Leverage, Likuiditas dan Ukuran Perusahaan terhadap Kinerja Keuangan. *Proceeding of The URECOL*, 5-12.
- Yundari, L. Y., Sukadana, I. W., & Suarjana, W. (2022). PENGARUH LIKUIDITAS, SOLVABILITAS, DAN UKURAN PERUSAHAAN TERHADAP LUAS PENGUNGKAPANINFORMASILAPORAN TAHUNAN PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BURSA EFEK INDONESIA TAHUN 2018-2020. *EMAS*, 3(6), 123-138.