Talent Development & Excellence
Vol.12, No. 1, 2020, 4700--4706

The Effect Of Company Size, Profitability and Leverage On Sustainability Report Disclosure

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Abstract

This study aims to analyze the effect of company size, profitability, and leverage on the sustainability report disclosure. The data is taken from the annual sustainability report presented on the Indonesia Stock Exchange in 2015-2018. Panel data were processed using Eviews9 to obtain descriptive statistics of the Fixed Effect Method regression equation and hypothesis testing. The result of the research revealed that there was a positive effect of profitability and leverage on sustainability report disclosure, but the company size was not significant. Therefore, it concluded that the sustainability report disclosure can be improved by increasing the profitability and leverage but not by the company size. This research implied to 1) the stakeholder theory which states that companies are not entities that only operate for their own interests; however, they must provide benefits to their stakeholders and
2) the legitimacy theory which states that the company can survive if the surrounding community feels that the company conducts business activities in accordance with the values held by the community.

Keywords: Company Size, Disclosure, Leverage, Profitability, Sustainability

1. INTRODUCTION

Disclosure of information about corporate social and environmental responsibility is a form of company empathy to benefit from any company activities that involve the community. A company that has a future is a company that runs its business on an ongoing basis. Meanwhile, to develop a sustainable business, sustainable development is needed. Sustainable company performance is presented in a sustainable report that is presented annually and is stand alone. In practice, there are still many public companies that have not reported sustainable performance on the grounds that they are still voluntary. Of the 100 public companies listed on the IDX in 2018 that have made sustainability reports, only 30% have been reported, and this includes quiet reporting. Because of its voluntary nature and there is no sanction for companies that do not submit, the sustainability report becomes less prestigious than conventional financial reports.

Is the sustainability report still relevant to discuss? Sustainability report compiled based on the interpretation of the 3 pillar concept, people, planet and profit compiled by GRI

ISSN 1869-0459 (print)/ISSN 1869-2885 (online)

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(Global Reporting Initiative) in a disclosure index. Key factors that companies feel the need to disclose on sustainability reports are company size, profitability and leverage.

As a large company, the company always highlighted the company's performance related to social and environmental, and companies that benefit from the use of assets and companies financed by debt. Several cases occurred related to the disclosure of sustainability reports, for example the case of the PT Lapindo Brantas, Inc. mudflow and the splinter of bay in Minahasa by PT Newport Minahasa Selatan and other cases related to company size, profitability and leverage.

The most recent case that requires consideration, is the case of peat forest fires in Riau so that the smoke disturbs people's lives and the environment. The company should have an adequate commitment in this sustainable business so that the company can survive in the business in a sustainable manner.

Therefore, this study aims to analyze the effect of company size, profitability and leverage on the sustainability report disclosure on several business characteristics of public companies.

2. LITERATURE REVIEW

The company's determination to realize the connection with social and environmental life certainly does not necessarily emerge immediately, but it is based on increasing awareness to be responsible for the impact of the company's activities on society and the environment.

The legitimacy theory states that the company tries to convince those around it to accept its activities by the community. Legitimacy from the community is an important requirement for running a business in a sustainable manner. There is legitimacy to ensure that company activities are accepted by outsiders as legitimate (Deegan, 2004).

The legitimacy theory supports the concept of three bottom line about 3 important pillars about company goals which include people, planet and profit. This is because the company should not be separated from the three pillars.In addition, companies need to pay attention to the community environment, the company's presence is also important to ensure that the company's activities must provide benefits to stakeholders. As stated in stakeholder theory, the activities of a corporate entity not only provide benefits to shareholders and management, but also provide benefits to other stakeholders.

According to Freeman 1984, stakeholder theory shows which parties the company should be held responsible for. Therefore, based on these two reasons, the ongoing report is important to be disclosed by the company.

2.1. Sustainability Report Diclosure

2.2. Company Size

Large companies have relatively large and broad influences, whereas small companies have relatively small and narrow influences. The size of the company can affect the extent of the disclosure of sustainability reports provided. The size of the company is indicated by the number of assets owned by the company calculated by logifying the total assets.

Large companies not only get pressure from the community but also have more operating activities which will have a greater influence on the community (Cowen et al,

ISSN 1869-0459 (print)/ISSN 1869-2885 (online)

http://www.iratde.com

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1987).The size of the company is very likely to affect the sustainability report because there are companies that carry out social responsibility programs because of their prestige as large companies. The greater the total assets, the greater the disclosure of sustainability reports by the company. There is a significant and positive effect between company size on the disclosure of sustainability reports.

Hypothesis 1: There is a significant positive effect between Company Size on the disclosure of sustainability reports.

2.3. Profitabilitas (ROA)

The level of the company's ability to make a profit is very important to be disclosed in the sustainability report because it will provide benefits to stakeholders. The increase in profitability has an impact on increasing the expectations of stakeholders and management of the company. Expectations to grow remain as long as there is an increase in profits that provides a way for increased investment. With the investment, it is very possible that the profits obtained will increase because even greater in the future the rate of return from the use of assets (ROA) is calculated by dividing net income from total assets. This shows that the profit from the use of assets, the higher the net profit, the more efficient the use of assets.

Dilling (2009) states that sustainability reporting has a significant positive relationship with profit margins and long-term growth. There is a significant and positive effect between profitability on the disclosure of sustainability reports.

Hypothesis 2: There is a significant positive effect between profitability on disclosure of sustainability reports

2.4. Leverage (DER)

Conditions that indicate how much the company's dependence on financing assets that come from outside the company. The higher the dependency of external debt, the higher the risk of using the debt. This level of dependence is very important because it shows how big the ratio between total debt to total equity.

The higher the level of leverage, the higher the level of asset financing from total debt, and at the same time the lower level of asset financing from own capital; Conversely, the lower the level of leverage, the lower the level of asset financing from total debt, and at the same time the higher level of asset financing from own capital.

According to Jensen and Meckling, 1976 that companies with large leverage will have large debts and bear a large monitoring cost. There is a significant and negative effect between leverage on the disclosure of ongoing reports.

Hypothesis 3: There is a significant negative effect between leverage on disclosure of sustainability reports.

3. METHODOLOGY

The research method used is a quantitative method. This study aims to analyze the effect of company size, ROA and DER on the disclosure of ongoing reports. The data used is secondary data in the form of financial statements of public companies that present annual continuous reports for the period 2015-2018. The sample selection used the purprosive sampling method and 10 companies from 54 companies were selected that met certain

ISSN 1869-0459 (print)/ISSN 1869-2885 (online)

http://www.iratde.com

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criteria, namely: AKRA, ASII, BBRI, BJTM, INJP, JSMR, PGAS, SIMP, SMGR and UNTR. SRDI calculation is done by dividing the score calculation results from 91 items from GRI based on annual sustainability reports with the number of expected score answers. Data quality meets the classical assumption requirements. Panel data processing is done by Eviews 9 to obtain descriptive statistics, regression equations, partial tests and analysis of effects related to company characteristics.

4. RESULT and ANALYSIS

Based on the Chow test comparing the Common Effect Method (CEM) with the Fixed Effect Method (FEM) it turns out that the results show that FEM is better than CEM because of the prob. Cross section F <α (0.0002 <0.05), and the Hausman test comparing FEM with Random The Effect Method (REM) results in that FEM is also better than REM because of the prob.section F <α (0.0000 <0.05). Thus the regression equation model used is the regression equation model from FEM because it has been tested with the two types of tests above. In the partial test it was revealed that Probability had a positive influence on the disclosure of the sustainability report because the partial test results showed that the prob.PROF was 0.0000 <0.05, while the Leverage, had a significant but positive effect on the disclosure of the sustainability report because the partial test results showed that the prob. LEV of 0.0432 <0.05. Thus, H2 and H3 are accepted. Another variable, Company Size does not affect the disclosure of sustainability reports because of prob. SIZE of 0.2406> 0.05, thus H1 was rejected. The regression equation model obtained is Y = -1.680061 - 0.126174 SIZE
+ 3.011404 PROF + 0.102686 LEV + ε

4.1. Analysis the Effect of Company Size on Sustainability ReportDisclosure

Hypothesis 1 states that company size has a positive influence on the disclosure of sustainability reports. This hypothesis has been answered based on the results of the study that it turns out that the size of the company does not have a significant effect on the Disclosure of Sustainability Reports because tcount <ttable (-1.199889 <2.01063) and probability 0.2406> 0.05.

Based on the results of the study it turns out the size of the company size does not have any impact on the disclosure of sustainability reports. For example, BBRI (PT. Bank Rakyat Indonesia Tbk) which has an average company size of 15.05104 and INTP (PT. Indocement Tunggal Prakasa Tbk) which has an average size of a company of 13.17002. BRI, as one of the largest banks in Indonesia, must of course disclose sustainable reports annually as an end to its social responsibility to the public and the environment; however, the motivation for its delivery is not because of its large size but because of its greatest responsibility, especially since BRI is a model state-owned bank. With an average of SRDI (Sustainability Report Disclosure Index) BRI of 0.23075 smaller than SRDI SMGR (PT Semen Indonesia Tbk) of 0.29945 even though BBRI has larger assets than SMGR. BBRI represents a banking service company that has a quite unique character related to the disclosure of sustainability reports because the bank's sustainability program is mostly related to the financial services sector and few implement real sector programs.

ISSN 1869-0459 (print)/ISSN 1869-2885 (online)

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Likewise, SIMP (PT Salim Ivomas Pratama Tbk) which has total assets of 13.4913 with SRDI of 0.3956 higher than ASII (PT Astra International Tbk) which has total assets of 14.3730 with SRDI of 0.2527. This finding shows that the motivation possessed by the company when it wants to present the disclosure of the sustainability report is not based on the consideration of the growth of the company's total assets but because of other motivations. According to Hitchner, 2017 that the size of the company determines the size of the company, the larger the size of the company the greater the company, and the size of the company is determined based on the size of the assets compared to other companies. However, company size cannot be related to the disclosure of social responsibility by the company.

Companies that have large assets may not necessarily show good performance through their care for the social environment and the environment. Thus, the results of this study do not support the theory of legitimacy which states that the company can survive if the surrounding community feels that the company conducts its business activities in accordance with the values held by the community

4.2. Analysis the Effect of Profitability on The Sustainability Report Disclosure

Hypothesis 2 states profitability has a positive effect on the disclosure of sustainable reports and based on the results of the study that profitability also has a significant and positive effect on the Disclosure of Sustainability Reports because tcount> ttable (6.018383> 2.01063) and probability 0.0000 <0.05.

Based on the results of the study it turns out that the level of ROA has a positive impact on the disclosure of sustainability reports. In analysis 4.1. total assets do not have a significant effect on the disclosure of sustainability reports, but ROA as a return from the use of assets has a significant and positive effect on the disclosure of sustainability reports. This shows that companies that make profits from the use of assets have the motivation to disclose them in the sustainability report. This means that the higher the level of ROA, the higher the level of sustainability report disclosure.

INTP which has an average ROA of 0.13325 with an average SRDI of 0.31045 and SIMP which has an average ROA of 0.022375. With an average SRDI of 0.376375. With a higher level of profitability INTP, but INTP has a lower SRDI. Positive profitability of 3.011404 means that Profitability has a positive effect on the Disclosure of Sustainability Reports. In other words, if the profitability changes positively by one unit, the disclosure of the sustainability report changes positively by 3,011 units. This result is in line with the opinion of Bowman and Haire, 1976 which states that the existence of profitability gives management freedom to express social responsibility for the community in the environment. A similar opinion was stated by Singhvi and Desai, 1971 from the results of his research in 500 large companies in the United States that there had been a positive influence between profitability on voluntary disclosure.

This research supports the stakeholder theory which states that companies are not entities that only operate for their own interests but must provide benefits to their stakeholders. Therefore, the company will try to provide various information held to attract and seek support from its stakeholders.

ISSN 1869-0459 (print)/ISSN 1869-2885 (online)

http://www.iratde.com

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4.3. Analysis the Effect of Leverage on Sustainability Report Disclosure

Hypothesis 3 states that leverage has a negative influence on the disclosure of sustainability reports and the results of the study show that leverage has a significant and positive effect on the Disclosure of Sustainability Reports because tcount> ttable (2.121183 > 2.01063) and leverage 0.0432 <0.05. Based on the results of the study it turns out that leverage has a positive impact on the disclosure of sustainability reports. This is contrary to hypothesis 3 because the hypothesis has a negative impact.

In general, according to empirical facts that companies that are approaching the community by showing social and environmental responsibility tend to hide the level of leverage they have. This could have happened because public companies are still motivated to make sustainability disclosures even though the company's position is in a difficult condition due to leverage. As is known, BRI as a state bank that has the highest average leverage level of 6.384075 while maintaining its image as a good bank and high empathy for the community and the environment is reflected in the increased disclosure of sustainability reports. But on the other hand, INTP as a cement producer that has the lowest average leverage level is also trying to increase the disclosure of sustainability reports.

So why are public companies with high leverage trying to disclose their sustainability reports because companies are looking for support from the community and the environment around the company regarding the disclosure of sustainability reports. Leverage positive value of 0.102686 means leverage has a positive effect on the Disclosure of Sustainability Reports. In other words, if the leverage changes positively by one unit then the disclosure of sustainability reports will change positively by 0.102686 units. Companies with high leverage try to get legitimacy from stakeholders including creditors through sustainability reports. Attention to high leverage can be diverted through sustainability reports. Disclosure of sustainability reports can maintain the support and trust of creditors. Corporate social and environmental responsibility reports as outlined in the sustainability report can be used by the company to prove that the company has carried out social responsibility. This is an effort so that the company's presence can be accepted by the public and receive support and trust from creditors.

5. CONCLUSION

The result of the research revealed that there was a positive effect of profitability and leverage on sustainability report disclosure, but the company size was not significant. Therefore, it concluded that the sustainability report disclosure can be improved by increasing the profitability and leverage but not by the company size. This research implied to 1) the stakeholder theory which states that companies are not entities that only operate for their own interests; however, they must provide benefits to their stakeholders and 2) the legitimacy theory which states that the company can survive if the surrounding community feels that the company conducts business activities in accordance with the values held by the community.

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