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The Effect of Sustainability Reporting on Company Financial Performance of Mining Sector Companies in Indonesia

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Abstract

This study aims to analyze the effect of Reporting Sufficiency on the financial performance of mining sector companies in Indonesia in the 2012-2016 period. The study uses secondary data sourced from the Mining Company Annual Report registered on the Indonesia Stock Exchange. The number of objects in this study were 20 companies for 4 years, so the total number of research samples was 80 samples. The collected data is then analyzed using descriptive analysis and path analysis. The study results show that Sustainability Reporting does not significantly influence ROA, ROE, and Tobin's Q. This finding implies that although the contribution of sustainability reporting to financial performance is not significant, it does not mean the existence of sustainability reporting is eliminated. Sustainability reporting is still needed to track, measure, plan and execute company activities to stay on the path of sustainability.

Keywords: *sustainability reporting, financial performance, mining sector*

1. Introduction

Lately sustainability reporting is gaining more attention in global business practices. The leaders of world companies are increasingly aware that the disclosure of more comprehensive reports (not just financial statements) will support the company's strategy (Baxi & Ray, 2009). This is because companies that are known to be committed to sustainability will gain the trust of stakeholders and can increase legitimacy in the eyes of the community, so that they will be able to support to achieve a better business strategy and company performance. The existence of the company's sustainability reporting is currently also receiving attention from shareholders (Scherer et al., 2013). One of the benefits of sustainability reporting according to GRI (2010) is that it can enhance the company's reputation (Hahn & Kühnen, 2013).

Sustainability reporting is an activity to increase transparency and accountability on issues that are not related to traditional financial reporting (single bottom line), but this reporting includes links among others environmental, social, and economic issues (triple bottom line) as a long-term perspective long (Hahn & Kühnen, 2013). Sustainability reporting is a signal given by the company to parties outside the company in order to provide confidence in the company's ability to go concern through the implementation of sustainability programs (Stubbs et al., 2013; Searcy & Buslovich, 2014). Corporate sustainability reporting has always been the object of monitoring for important company stakeholders, namely shareholders and company employees, and is also intended for other stakeholders, namely customers, creditors, the government, and the community (Dilling, 2010; Masruki & Azizan, 2012) say that positive information about staffing listed in the sustainability report will attract interest for potential employees, such as increased motivation from existing employees so that it will contribute to higher productivity and consequently produce profitable financial results.

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International Journal of Advanced Science and Technology
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Corporate sustainability reporting is the way the company communicates how the company has managed its business risks so that the possibility of future business risks can be minimized. Companies with smaller business risks will be more trusted by creditors and investors, and thus can reduce costs and increase company profits. companies get a good market reaction, which is proxied by CAR, after making environmental disclosures (Blacconiere & Patten, 1994). CSR disclosure (sustainability) has a positive relationship to future forecasting (Dhaliwal et al., 2012). Based on that, companies through sustainability reporting are able to influence investor perceptions of the company which ultimately based on company performance.

Performance is how the company is able to meet the interests of its stakeholders (Machmud & Hidayat, 2020; Herlinawati et al., 2019; Sumawidjaja et al., 2019). Based on the theory of stakeholder, the company can run well if the company is able to maintain relations with stakeholders and pay attention to their interests and rights. One way for the company's relationship with stakeholders to run well is through sustainability activities. Sustainability activities are activities carried out by the company to meet the interests of current stakeholders without ignoring the needs of stakeholders in the future (White, 2011). The company's sustainability activities will be more effective if it is also accompanied by effective communication. For this reason, based on the signaling theory, companies need to provide a signal, in this case in the form of sustainability information, to stakeholders so that the company gets the desired feedback from stakeholders on the signal. According to Abbot et al. (1979), companies that do sustainability reporting are basically aimed at the key stakeholders, namely shareholders and company employees, and also aimed at other stakeholders, namely, customers, creditors, the government, and the community (Dilling, 2010).

Companies that are known to be sustainable through the ecoefficiency program, the company will get appreciation from both outside and inside the company (Angelia & Suryaningsih, 2015). Financial groups are a factor that influences companies to report sustainability because of demands from financial groups for transparency and responsibility for the company's business activities (Elsakit & Worthington, 2012). Companies that are known to have good sustainability performance will be more appreciated by the public. community loyalty results in an increase in sales of company products and / or services, with the increase in sales, along with the application of the concept of sustainability, the company's net profit will increase along with the increase in corporate profits, retained earnings also increase. Increased retained earnings can increase company ownership (shareholders' equity) shares) in the future Profit balances in most companies are used to be reinvested in segments that have the potential to generate profits for the company Profit balances are used to be reinvested in these parts, will then result in a return from a profit increase or an increase in income. The next impact is revenue that continues to increase. Thus increasing the company's net profit will have an impact on increasing ROE (Angelia & Suryaningsih, 2015).

Disclosure of sustainability is positively related to stock prices (Ng & Rezaee, 2015). With an increase in share prices, there is an increase in the value of the company. Companies that inform about their concerns about a sustainability program, causing the company's value to be better (Eccles et al., 2014). The existence of sustainability reporting that is reflecting the company's sustainability activities can improve the company's financial performance (Milgrom & Roberts, 1992; Watts & Zimmerman, 1978; Abbott & Monsen, 1979; Ullmann, 1985). Likewise, in the Dhaliwal et al. (2011) study which examines CSR disclosures (sustainability) measured through content analysis (CSR index) has a positive

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Vol. 29, No. 8, (2020), pp. 546-555

relationship to future forecasting, so it can be concluded that the signal given by the company through sustainability reporting can affect investors' perceptions of the company. When the company gives an information signal, the stock market will respond to the signal This is through the movement of company shares after the issuance of a report. Disclosure of sustainability is positively related to stock prices (Murray et al., 2006). Companies that inform their concerns about a sustainability program, cause the company's Tobin's q value to be better (Opler & Titman, 1993). In other words, the existence of sustainability reporting that reflects the company's sustainability activities able to improve the company's financial performance, both in terms of accounting-based, namely ROA and ROE (Freedman, 1988; Roberts, 1992; Watts & Zimmerman, 1978; Abbott & Monsen, 1979; Ullmann, 1985; Alhaji et al., 2013; Giannarakis, 2015; Ika & Hodgson, 2014; Kasbun et al., 2017) and in terms of market-value-based, namely Tobins'Q (Li et al., 2013; Cheng et al., 2014; Klapper et al., 2004; Sami et al., 2011).

Seeing the inconsistency of the results of this previous research reflects that the study of sustainability reporting and the company's financial performance is still controversial among researchers. For this reason, a repeat study is needed to examine the factors that cause inconsistencies in the results of previous studies. This research was conducted in the Mining sector because the mining sector is an industry with a very large externality impact and it is expected that business transparency. According to Dierkes and Preston (1977), Patten (2002), Milgrom and Roberts (1992) that mining sector companies are among the companies that are categorized as high profile. High profile companies are companies that have consumer visibility, high political risk, and high competition. According to Milgrom and Roberts (1992), companies in the industry have a systematic relationship with social responsibility activities.

2. Methodology

This research is an associative causality research. The data collected is secondary data sourced from the Mining Company Annual Report registered in the Indonesia Stock Exchange. The reason researchers make mining sector companies as a study population is because according to Dierkes and Preston (1977), Patten (2002), Milgrom and Roberts (1992) that mining sector companies are among the companies categorized as high profile.

Disclosure of sustainability is determined using content analysis. Content analysis is a method of modifying a text (content) from a portion of writing into various groups or categories based on certain criteria (Webber & Weber, 1988). This method has been widely adopted in previous studies on the disclosure of social and environmental responsibility (Abbot & Monsen, 1979; Guthrie & Parker, 1990; Hackston & Milne, 1996; Michelon & Parbonetti, 2012).

Sustainability Reporting Variables are measured by comparing sustainability reporting items that are disclosed with sustainability reporting items that should be disclosed based on Sustainability Accounting Standards. In this study data about sustainability reporting items were obtained by identifying reporting items listed in the company's annual report. Company performance, which is proxied by using Return on Assets (ROA) can be obtained from the profit sharing between net income and the company's total assets. ROA is used to measure the effectiveness of the company in generating profits by utilizing the assets it has (Milgrom & Roberts, 1992). ROA ratio is measured by dividing the value of net income to total assets. ROE ratio is measured by dividing the value of net income to total equity. Tobin's Q ratio is measured by dividing the total market value of equity and book value of debt

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to total assets. In this study, data about the company's ROA, ROE and Tobin's Q were obtained from ICMD and the company's Annual Report downloaded from the IDX website. Based on the relationship between variables, it can be drawn a path diagram that shows the structure of the relationship between variables shown in Figure 1.

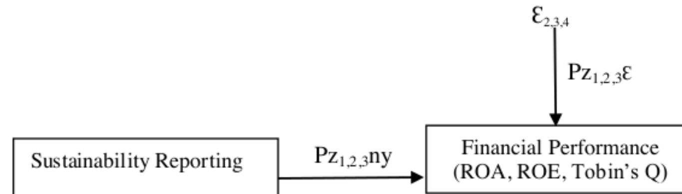

Figure 1. The Relationship between Sustainability Reporting with Financial Performance

The target population selected in this study using purposive sampling techniques obtained as many as 41 mining sector companies listed on the Indonesia Stock Exchange. In this study, researchers used data from 20 objects over a period of 4 years, so the total number of research samples was 80 samples. The collected data is then analyzed using descriptive analysis and path analysis.

This content analysis method uses the calculation of the Social Responsibility Disclosure Index (SRDI) (Gupta, 1995). SRDI assesses the disclosure of sustainability in accordance with the criteria according to the Sustainability Accounting Standard Board (SASB), namely Green House Gas Emissions, Water Quality, Energy Management, Water Management, Water & Hazardous Materials Management, Biodiversity Impacts, Community Relations, Security, Human Rights, and Rights of Indigenous Peoples, Workforce Health, Safety, and Well-Being, Labor Relations, Business Ethics & Payments Transparency. Of the 11 aspects of disclosure of sustainability reporting there are 22 items which are then adjusted to each company. Many previous studies have used SRDI measurements to measure the extent of disclosure related to company performance (Mustaruddin et al., 2008; Charitoudi et al., 2011; Ika, 2014; Jones, 1980; Klapper, 2004; Kasbun et al., 2016).

Path analysis technique is used in testing the amount of contribution (contribution) shown by the path coefficient of each path diagram from the causal relationship between exogenous variables to endogenous variables (Hair et al., 2014). The hypothesis proposed in this study:

H1: Sustainability Reporting has a significant effect on ROA in the mining sector companies
H2: Sustainability Reporting has a significant effect on ROE in the Mining sector companies
H3: Sustainability Reporting has a significant effect on Tobin's Q in Mining sector companies

3. Results and Discussion

3.1. Description of Sustainability Reporting Mining Sector Companies in Indonesia

Based on descriptive statistical results the average value of sustainability reporting is 32.21% with a standard deviation of 17.5105. These results indicate the still low level of sustainability reporting, which is less than half of all items that should be reported to

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public companies in the Mining sector that are the research sample. More than half (56.25%) of observation units whose reporting rates are below average. This gives an indication that there are still many mining sector companies in Indonesia that are less committed to transparency and accountability in carrying out their business operations with regard to sustainable principles. It is more clearly shown in Table 1 and Figure 2.

Table 1. Analysis of the Sustainability Report Variable Description

Sustainability Reporting Practices	Amount	Percentage of Disclosure
Average	32,21%	-
Below Average	45 Firm	56,25%
Above Average	35 Firm	43,75%

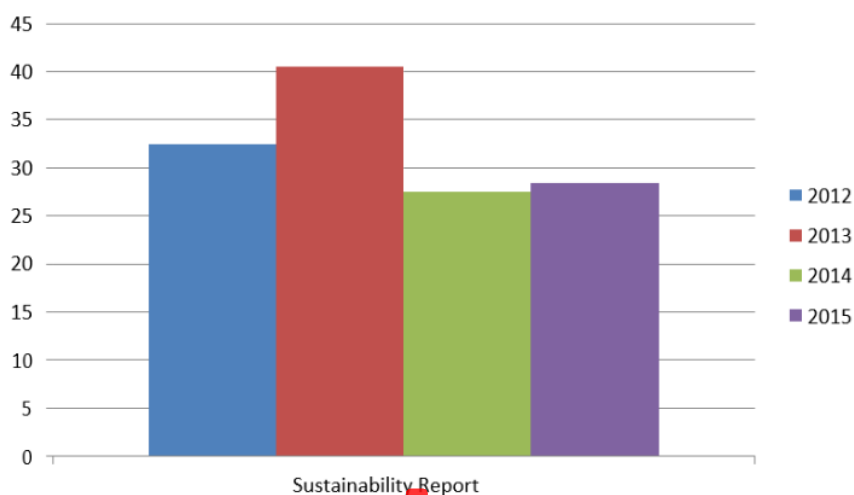

Figure 2. Reporting Sustainability of Mining Sector Companies in Indonesia in the 2012-2015 Period

3.2. Description of the Financial Performance of Mining Companies in Indonesia

Descriptive statistics of the company's ROA showed an average of 0.2006 with a standard deviation of 283.53. Descriptive statistical results also show the average value of the company's ROE of 14.0345 with a standard deviation of 44.022. Then, the results of descriptive statistics also show the average value of Tobin's Q is 49.8524 with a standard deviation of 65.6272. This condition gives an indication that during the period of 2013-2016 some mining companies were able to achieve good financial performance and some did not. This can occur due to many factors, namely mining commodity factors, economic turbulency factors and regulatory factors. These conditions are shown in Table 2 and Figure 3.

The weak performance of the mining sector is due to falling prices of mining commodity prices in the global market (Connolly & Orsmond, 2011). In addition, the weak selling price of commodities was also triggered due to falling export demand to various countries, such as China and India, due to the weak economy in 2012 and 2013 (Baffes et al., 2015). Another factor contributing to the weak financial performance of mining companies is the regulatory factor, whereby RI Law No. 4 of 2009 concerning Mineral and Coal Mining was effective in 2013. This new government regulation regulates the mining and mining of coal mines and bans exports of raw materials. This

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regulation requires the construction of smelters so that domestic mining production can be processed before being exported. Therefore, this certainly has an impact on the company's operations and investment decisions so that it directly affects the company's financial performance.

Table 2. Analysis Description of the value of ROA, ROE and Tobin's Q value

	ROA			
	2013	**2014**	**2015**	**2016**
Average	2,298413	1,226843	-0,15657	-2,56589
Below Average	12	11	4	5
Above Average	8	9	16	15
	ROE			
	2013	**2014**	**2015**	**2016**
Average	28,31916	6,30896	9,084606	12,42534
Below Average	18	12	12	14
Above Average	2	8	8	6
	TOBINS Q			
	2013	**2014**	**2015**	**2016**
Average	1,274683	1,675467	86,90492	109,5548
Below Average	14	16	14	13
Above Average	6	4	6	7

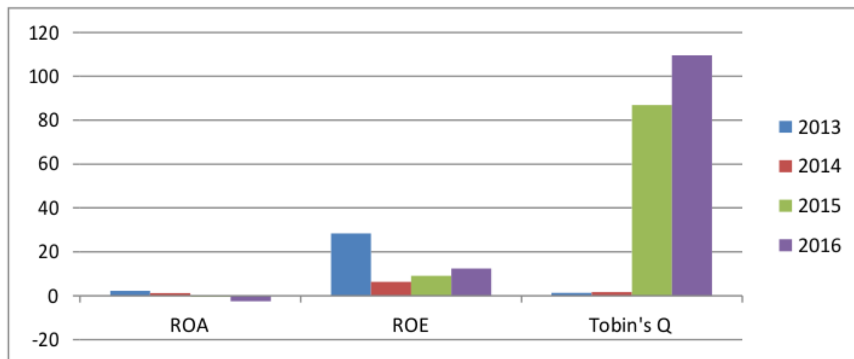

Figure 3. Financial Performance of Mining Companies in Indonesia

From Table 2, it appears that the average trend in ROA performance shows a decline from year to year. In contrast to ROE which initially showed a decrease in 2014 but an increase in 2015 and continued to increase in 2016. Although from Table 2, it appears that the number of companies whose ROE levels are below the average more than companies with ROE levels in above average. This is because after the enactment of Law No. 4 of 2009 on Mining Minerba effectively, resulting in some mining companies to make large expenditures for investment, and some companies to stop mining operations. Of course this has a direct impact on the company's operations, which in turn causes a decline in share prices on the stock exchange, so that the value of the mining sector companies also declines. This can be seen from the average value of Tobins Q is quite low in 2013 which is 1, 27%. However, in 2015-2016, the financial performance of ROA and ROE has improved. This was followed by an increase in the company's Tobins Q value. Even

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though the number of companies below the average is still higher than the average, it shows that some mining companies are still trying to adapt to business pressures.

3.3. Effect of Sustainability Reporting on Company Financial Performance

The statistical results of testing the effect of sustainable reporting on the financial performance of mining sector companies in Indonesia are shown in Table 3.

Table 3. Statistical Results of Testing

Path	Coefficient	Sig.	Statistics Conclusion	Influence (Coefficient Squared	Hypotheses Decision
Y → Z1	(0.199)	0.119	Not Significant	3,96%	H_0 accepted
Y → Z2	0.137	0.292	Not Significant	1,87%	H_0 accepted
Y → Z3	(0.125)	0.337	Not Significant	1,56%	H_0 accepted

Hypothesis testing in this study is divided into three tests, testing the effect of sustainability reporting on financial performance proxied by ROA, testing of the effect of sustainability reporting on financial performance proxied by ROE, and testing of the effect of sustainability reporting on financial performance proxied by Tobin's Q.

Hypothesis 1 test results show the path coefficient of -0.199 with sig count 0.119 is greater than sig 0.05. With a very low even minus path coefficient and supported by a significance of greater than 0.05, it indicates that sustainability reporting does not have a significant negative effect on ROA in mining sector companies listed on the Indonesia Stock Exchange during 2013-2016, so hypothesis 1 is rejected. The results of testing 1 are in line with the results of Nor et al. (2016), Burhan and Rahmanti (2012) research which states that sustainability reporting does not significantly affect the company's ROA. This test was also proven to reject the results of the study of Saleh et al. (2010) who examined the effect of sustainability reporting on financial performance of companies on the Bursa Malaysia. The sustainability reporting variable is proxy for score and the financial performance variable is proxy for ROA. Saleh et al. (2010) research uses a purposive sampling technique with the GLS statistical testing method and concludes that sustainability reporting affects the company's ROA.

Hypothesis 2 test results show the path coefficient of 0.137 with sig count 0.292 greater than sig 0.05. With a low path coefficient value and supported by a significance greater than 0.05, it indicates that sustainability reporting has no significant effect on ROE in mining sector companies listed on the Indonesia Stock Exchange during 2013-2016, so hypothesis 2 is rejected. The results of these 2 tests are in line with the results of research by Buys et al. (2011), Akisik and Gal (2014). This test was also proven to reject the results of the study of Nor et al. (2016) who examined the effect of sustainability reporting on financial performance on companies listed on the Bursa Malaysia. Sustainability reporting variables are measured by index and financial performance variables are proxied by ROE. This study by Nor et al. (2016) uses a purposive sampling technique with multiple linear regression statistical testing methods and concludes that sustainability reporting has a significant effect on company ROE.

Hypothesis 3 test results show the path coefficient of -0.125 with sig. 0.337 greater than sig 0.05. With a negative path coefficient value and supported by a significance greater than 0.05, it indicates that sustainability reporting has no significant effect on Tobin's Q on mining sector companies listed on the Indonesia Stock Exchange during 2013-2016, so hypothesis 3 is rejected. The results of testing 3 are in line with the results

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of research by Khlif et al. (2015). This test also proved to reject the results of research from Caesaria and Basuki (2017) where he examined the sustainability reporting that was proxied by SRDI and its effect on Tobin's Q value in companies listed on the IDX by using purposive sampling and regression testing techniques. The results concluded by Caesaria and Basuki (2017) are that sustainability reporting has a significant effect on Tobin's Q companies.

This condition is due to the fact that sustainability disclosure has not attracted the attention of the securities market in developing countries (Khlif et al., 2015) because in developing countries the incessant socialization of sustainability by social and environmental organizations so that investor orientation in developing countries is only limited to their interests, not in addition to the social and environmental aspects, it is only natural for companies operating in the mining sector to provide large externalities to the environment to carry out sustainable activities. Other factors the company does not pay attention to the quality of sustainability reporting, such as disclosure neutrality, where most companies only express positive activity. This causes the public to consider sustainability reporting only as an imaging medium because it reports in a non-quality, neutral and objective manner. Therefore, sustainability reporting does not have a significant effect on the value of Tobin's q companies.

4. Conclusion

Sustainability reporting does not have a significant effect on ROA and ROE this is because the success of sustainability reporting does not cover all aspects of the company. This can be seen from the results of the descriptive analysis that the average level of sustainability disclosure in the mining sector public companies in Indonesia from 2012 to 2015 shows that disclosure in certain aspects has not been able to attract positive feedback from stakeholders to the company. Sustainability reporting also has no effect on the company's Tobin's Q value. Although the contribution of sustainability reporting to financial performance is not significant, it does not mean the existence of sustainability reporting is eliminated. Because sustainability reporting is the mechanism of management engineering in developing and achieving company strategy. Sustainability reporting is needed to track, measure, plan and execute company activities to stay on the path of sustainability.

The limitation in this study is the content of the analysis of continuous reporting in measurement that is suitable if it is related to reporting, but the need for different measurement aspects, which not only looks at the quantity aspect but also on the quality aspect of sustainability reporting. Population. This research only covers the mining industry. Future research can expand the object of research in the whole industry that has a large externality impact, such as adding the manufacturing sector.

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