CHAPTER I

INTRODUCTION

A. Background

In the current era of globalization, companies need to provide environmental, social, and governance disclosure for public and stakeholders' transparency. Further, companies are required to play an active role in managing their negative and positive impacts on the environment, social, and governance to support the company's sustainability. They are now expected to prioritize the interests of management and capital owners and be able to pay attention to the interests of employees, consumers, and the community. One of the demands against companies is to provide transparent information; accountable companies and corporate governance are increasingly forcing companies to provide information about their social activities. They are also required to carry out social responsibility or often referred to as Corporate Social Responsibility, to report that the company has carried out social activities that should be done.

One of the media for disclosing environmental, social, and governance to support company's sustainability is the publication of a sustainability report. A sustainability report is a report made by a company to report its Corporate Social Responsibility (CSR) activities. Sustainability reports are made so that stakeholders, including the community, can know all forms of corporate responsibility to the community and the environment. The company will receive positive recognition from stakeholders and the public. Therefore, a company should be aware of the importance of a sustainability report for the sustainability of the company's business.

Further, sustainability reports have a close relationship with Corporate Social Responsibility. Although they are both related to social disclosure, the disclosure of Corporate Social Responsibility is different from the disclosure of Sustainability Report. Corporate Social Responsibility (CSR) refers to organizations, especially companies, that have various responsibilities to their stakeholders in all aspects of their operations regarding economic, social, and environmental aspects. At the same time, sustainability reports are another report made by companies. This includes not only financial performance information but also non-financial information.

Specifically, a sustainability report is an information or a report that contains information about the company's responsibilities that generate financial and non-financial information, consisting of economic, environmental, social, and governance performance, which will be the company's responsibility to stakeholders and the community. Companies that implement sustainability reports will receive many benefits *i.e.,* showing social care to the community, building trust and strengthening relationships and communication with stakeholders, reducing corporate risk, and protecting good name (reputation). A good name or reputation makes it possible to increase people's purchasing power for its products so that the company's performance will increase. With this increased financial performance, investors will be interested in investing their capital which the company can use to develop its business.

In Indonesia, several companies have begun to publish their sustainability reports together with annual or stand-alone reports to enhance their positive image, especially from a public perspective. In 2005, only one company realized the importance of sustainability reports. By 2020, around 190 companies, or as a percentage, only less than 30% of companies publish sustainability reports in annual report or stand-alone reports.

Most companies in Indonesia currently still focus on disclosing financial statements related to financial performance only. On the contrary, financial performance alone is not enough to form an accountable organization. A company is expected to be able to make additional information reported by the company's management to attract investors' interest. In addition, the disclosure of sustainability reports in Indonesia is still a voluntary act. Most of other countries, a sustainability report is a report that must be disclosed and published by companies. Although the disclosure of sustainability reports is still a voluntary act in Indonesia, companies with reasonable environmental, social and corporate governance responsibilities are responsible for issuing sustainability reports, whether voluntary or not (Rely, 2018). Although voluntary, many companies are starting to publish sustainability reports every year. They have become mandatory reports that companies have to issue.

In Indonesia, the regulations regarding sustainability reports are contained in Law Number 40 of 2007 concerning Limited Liability Companies. This law regulates Social and Environmental Responsibility. A company, related to natural resources, is obliged to carry out said Social and Environmental Responsibility. In addition to the previously described regulations, there are regulations regarding other sustainability reports contained in the Financial Services Authority Regulation Number 51/POJK.03/2017. This regulation explains that several companies require Financial Services Authority (*Otoritas Jasa Keuangan-OJK*) to make a sustainability report that will later accompany the annual report.

Moreover, Al-Qur'an mentions the need to preserve the environment several times. One of them is as in the Al-Qur'an Surah Ar-Rum verses 41-42, which reads:

ظَهَرَ ٱلْفَسَادُ فِى ٱلْبَرِّ وَٱلْبَحْرِ بِمَا كَسَبَتْ أَيْدِى ٱلنَّاسِ لِيُذِيقَهُم بَعْضَ
ٱلَّذِى عَمِلُوا۟ لَعَلَّهُمْ يَرْجِعُونَ ﴿٤١﴾ قُلْ سِيرُوا۟ فِى ٱلْأَرْضِ فَٱنظُرُوا۟
كَيْفَ كَانَ عَـٰقِبَةُ ٱلَّذِينَ مِن قَبْلُ ۚ كَانَ أَكْثَرُهُم مُّشْرِكِينَ ﴿٤٢﴾

Figure 1.1

It has the meaning: "Mischief has appeared on land and sea because of that the hands of men have earned, that ((Allah)) may give them a taste of some of their deeds: in order that they may turn back (from

Evil). Say: "Travel through the earth and see what was the end of those before (you): Most of them worshipped others besides Allah."" (QS Ar-Rum: 41-42).

Surah Ar-Rum Verses 41-42 delivers the message that humans must always take care of their natural surroundings. Humans must be held accountable for the damage they have done. As caliphs, humans are tasked with utilizing, managing, and maintaining the environment. In brief, the relationship between Al- Qur'an and this research is that in order to reduce the environmental damage done by companies, there needs to be transparency, accountability, as well as environmental and social responsibility through sustainability reports issued by companies. The existence of a sustainability report is expected to minimize the impact and create good value for the company in the eyes of stakeholders and the community.

The benefit of this research is to help stakeholders and the public understand the factors affecting sustainability reports. The factors that affect a sustainability report include company's size, profitability, growth, leverage, category list, age, nationality, board size, independence, advertising intensity, and industry type. Among these factors, the researcher re-examined the focus on company performance as measured through firm size, firm age, industry type, profitability, leverage, and liquidity.

There have been several research on the influence of company attributes on the sustainability report. From several previous studies, there is consistency with research results. First, Bhatia and Tuli (2017) stated that the size of a company has a positive and significant relationship with sustainability reporting. Further, Ozcan (2020) also proved that his findings on firm size have a positive and significant impact on sustainability reports.

Second, in regards to company's age, Bhatia and Tuli (2017) argued that the company's age has a positive and significant association with sustainability reports.

Third, Bhatia and Tuli (2017) mentioned that the result of the industry type is found to be statistically significant.

Fourth, Lucia and Panggabean (2018) revealed that profitability significantly impacts the sustainability report. Other evidence is provided through research conducted by Maryana and Carolina (2021). They found that profitability has a significant impact on sustainability reports.

Fifth, Bhatia and Tuli (2017), in their research, commented that there is a negative and significant association between the leverage of a company and sustainability report. The findings of Bhatia and Tuli's research are strengthened again in the research done by Maryana and Carolina (2021) which showed that leverage has a significant and negative impact on sustainability reports.

Sixth, Ruhana and Hidayah (2020) explained that the liquidity variable of their research found that liquidity has a significant positive effect on sustainability reports.

Based on the review on several previous research results, this study is a compilation and replication of several previous studies, there are research conducted by Lucia and Panggabean (2018) with tittle the effect of firm’s characteristics and corporate governance to sustainability report disclosure, Ruhana and Hidayah (2019) with title the effect of liquidity, firm size, and corporate governance toward sustainability report disclosure and Bhatia and Tuli (2017) with title corporate attributes affecting sustainability reporting: the Indian perspective.

The researcher replicate firm size, firm age, industry type and leverage variable from research that conducted by Bhatia and Tuli (2017). For profitability variable the researcher replicate it from Lucia and Panggabean (2018) research. And the last one, liquidity variable, researcher replicate it from Ruhana and Hidayah (2019) research.

The researcher's motivation in conducting this research is to investigate if the sample, sample period, and several independent variables are replaced, the results will remain the same or different from previous research. Therefore, this research is entitled "**CORPORATE ATTRIBUTES AFFECTING SUSTAINABILITY REPORTING: AN INDONESIAN PERSPECTIVE**."

B. Research Questions

Based on the background of this research previously discussed, the researcher concludes these research questions:

1. Does firm size have a positive effect on the sustainability report?
2. Does firm age have a positive effect on the sustainability report?
3. Does industry type have a positive effect on the sustainability report?
4. Does profitability have a positive effect on the sustainability report?
5. Does leverage have a negative effect on the sustainability report?
6. Does liquidity have a positive effect on the sustainability report?

C. Research Purposes

Based on the research questions, the objectives of this study are to examine if:

1. Firm size has a positive effect on the sustainability report
2. Firm age has a positive effect on the sustainability report
3. Industry type has a positive effect on the sustainability report
4. Profitability has a positive effect on the sustainability report
5. Leverage has a negative effect on the sustainability report
6. Liquidity has a positive effect on the sustainability report

D. Significance of the Study

1. Theoretically

a. This research is expected to reveal and add insight to readers on the importance of sustainability reports for companies and stakeholders.

b. This research is hoped to function as a reference for similar research in the future.

2. Practically

a. In this study, companies that have published sustainability reports regularly can motivate those companies that have not yet disclosed sustainability reports in publishing annual reports on environmental, social, and governance responsibilityand provide an understanding on the importance of a sustainability report for the company.

b. This research can be a center of information for stakeholders in assessing company activities in carrying out environmental, social, and governance responsibility through sustainability reports.

c. For the government, this research is a reference for setting regulations requiring all companies to publish sustainability reports due to their importance. In addition, this study can provide recommendations so that the government can prepare a guideline or indicator of sustainability report.

d. For the community, this research is expected to be a means of information**.** People will be able to better understandsustainability reports that the company has disclosed as a form of corporate responsibility in the environmental, social, and governance fields.