www.bircu-journal.com/index.php/birci
Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Humanities and Social Sciences
ISSN 2615-3076 Online)
ISSN 2615-1715 (Print)

Disclosure of Sustainability Reporting, Corporate Governance Perception Index and Their Effect on Corporate Financial Performance (Empirical Study of Companies Participating in CGPI Reporting & Listing on the Indonesia Stock Exchange 2016-2020)

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Abstract

Sustainability reporting can build interest in shareholders with a long-term vision and help demonstrate how to increase company value in terms of social and environmental issues. The purpose of this study was to determine the effect of the disclosure of sustainability reporting, corporate governance perception index on financial performance. The financial performance variable as measured by the return on assets of the companies participating in the 2016-2020 Corporate Governance Perception Index. The amount of data in this study were 61 companies with 8 companies being the research sample, and the total number of observations was 40. Types of data in this study is secondary data obtained from the Indonesian stock exchange and the official website of each company. Data collection in this study used purposive sampling technique. The analysis technique used is multiple linear regression analysis. Data processing using SPSS 25. The results of the study show that sustainability reporting and corporate governance perception index have an effect on financial performance.

Keywords
sustainability reporting; good corporate governance index; financial performance; company age

I. Introduction

Stakeholders basically interested in the condition of the company, not only limited to financial performance but also non-financial performance such as environmental and social (Burhan, 2012; Digdowiseiso, 2021; Digdowiseiso & Agustina, 2022; Digdowiseiso & Santika, 2022; Digdowiseiso & Putri, 2022). Companies are expected to generate high profits and are required to provide transparent information to the wider community, especially companies that have gone public. In addition, the company must pay attention to the welfare of employees, the welfare of shareholders, customer satisfaction, and other parties. The existence of social and environmental events experienced by several companies at this time also increasingly triggers one of the stakeholder accusations, such as the Lapindo Brandas environmental incident which caused a mudflow in the Sidoarjo area, East Java (Sari, 2013). Some companies that Tbk only focus on profit taking,

Research conducted by Bukhori & Sopian (2017) which relates to the effect of sustainability reporting disclosures on the company's financial performance states that sustainability reporting disclosures have a significant positive effect on ROA. Wijayanti (2016), also found a significant effect on profitability. Meanwhile, research on sustainability reporting conducted by Sari & Andreas (2019) stated that none of the three aspects of sustainability reporting, namely financial aspects, social aspects, and

DOI: https://doi.org/10.33258/birci.v5i3.5920

environmental aspects, had an effect on the company's financial performance. Natalia's research (2014) did not find a positive impact on financial performance. The negative relationship between sustainability performance and company financial performance (CFP) was reported by Mualifin (2016).

The United States experienced a crisis in 2008 that affected the world economy. Likewise, Indonesia did not escape the impact of the crisis. The issue of good corporate governance has emerged as a very important debate to support the resumption of business activities and economic growth after the crisis. Good Corporate Governance tends to be a set of patterns of corporate behavior as measured by performance, growth, funding structure, and involvement of shareholders and stakeholders. The company is expected to provide accurate, timely and transparent disclosures about the importance of shareholders' rights to receive accurate information and all matters relating to company ownership and performance to stakeholders (Digdowiseiso et al., 2022a; Digdowiseiso et al., 2022b; Digdowiseiso et al., 2022c).

The results of previous studies have been carried out by several previous researchers regarding the impact of Good Corporate Governance (GCG) which is proxy using the Corporate Governance Perceptions Index (CGPI) on the company's financial performance. Research by Fanani and Nurfauziah (2016) states that the Corporate Governance Perceptions Index has a positive effect on ROA. The same result was also reported by Adhiprasetya & Zulaikha (2019) that corporate governance has a positive relationship to ROA. Furthermore, Windah and Andono (2013) show that CGPI has a negative effect on ROA. Similarly, research conducted by Anjani & Yadnya (2017) also shows that there is no positive relationship between the Corporate Governance Perception Index as mentioned above.

Based on the research gap above, the results are varied and inconsistent from previous studies regarding the relationship between the independent variable and the dependent variable. So the researchers tried to do research on different periods, samples and measurement of variable indicators. For this reason, in this study, the authors raised the title "DISCLOSURE OF SUSTAINABILITY REPORTING, CORPORATE GOVERNANCE PERCEPTION INDEX AND THEIR EFFECT ON CORPORATE FINANCIAL PERFORMANCE" empirical studies on companies listed on the Indonesia Stock Exchange and participated in the assessment program of The Indonesian Institute of Corporate Governance (IICG), and successively published sustainability reporting from 2016-2020. Therefore, the formulation of the problem in this study is (i) Does the disclosure of sustainability reporting affect CFP, (ii) Does the disclosure of corporate governance perception index affect CFP. From the research problem, the hypothesis in this study is:
H1: Sustainability Reporting has a positive effect on Corporate Financial Performance (CFP).
H2: Corporate Governance Perception Index has a positive effect on Corporate Financial Performance (CFP).

II. Research Method

The technique of determining the sample in this study is by purposive sampling method. This research uses a quantitative approach that focuses on hypothesis testing, measuring and researching variables so as to produce conclusions (Digdowiseiso, 2017). The population of this study are all companies listed on the Indonesia Stock Exchange and CGPI which were selected based on the criteria determined by the researcher. There were

61 companies that were participants in the Corporate Governance Perception Index program consecutively from 2016 – 2020, resulting in 8 companies publishing Sustainability Reporting consecutively from 2016 – 2020.

Table 1. Research Sample Criteria

No	Information	Amount
1.	Companies that join the Corporate Governance Perception Index program 2016 – 2020	61
2.	Companies that do not follow the Corporate Governance Perception Index program consecutively from 2016 – 2020	(48)
3.	Companies that do not publish sustainability reports consecutively from 2016-2020	(4)
4.	Companies that suffer losses in 2016-2020	(1)
	Number of Sample Companies	8
	Total Number of Samples	**40**

Source: Data processed by the author, 2022

The purpose of this research is to analyze the impact of sustainability reports as measured by GRI-G4 and GRI Standard. "The GRI standards represent best practice globally when it comes to publicly reporting economic, environmental and social impacts. Sustainability reporting based on the GRI Standards provides information on positive or negative contributions to organizations and sustainable development" (GRI, 2016). Good corporate governance as measured by the Corporate Governance Perception Index of Corporate Financial Performance as measured by Return On Assets. The independent variables are Sustainability Reporting (X1), Corporate Governance Perception Index (X2) and the dependent variable is Corporate Financial Performance (Y). The type of data in this study is secondary data obtained from the Indonesia Stock Exchange website and the official website of each company, as well as CGPI reports obtained directly from the relevant agency, namely The Indonesian Institute of Corporate Governance. Data processing using SPSS 25 software.

Table 2. Operational Measurement of Variables

No	Variable	Measurement
1.	*Sustainability Reporting* Classification of SR information: When information is disclosed it is given a score of 1, when no information is disclosed it is given a score of 0. n is the total of all scores that are only disclosed by the company, while k is the number of scores that must be disclosed based on the GRI-G4 guidelines and GRI Standard (Pujiningsih, 2020)	$\text{Indikator } \textit{Sustainability Reposting} = \frac{n}{k}$
2.	*Corporate Governance Perception Index* Aspects of CGPI assessment by The Institute of Corporate Governance are commitment to corporate governance, accountability, transparency, independence, responsibility, leadership,	The scoring is as follows: 55 – 69 = Fairly Reliable 70 – 84 = Trusted 85 – 100 = very reliable (IICG, 2015).

	fairness, capability, strategy, risk, ethics, culture, and sustainability. scores based on predetermined standards.	
3.	*Corporate Financial Performance* Financial performance, which is calculated by the profitability ratio indicator, namely Return On Assets, was chosen as a measurement proxy because this study wants to focus on looking at the profitability of the company's operational activities, not ROE which focuses on shareholders or ROI that focuses on investors.	$\text{Return on Assets} = \frac{\text{Net Income after tax}}{\text{Total Assets}} \times 100\%$

Source: Data processed by the author, 2022

III. Results and Discussion

Table 3. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	mean	Std. Deviation
SRDI	40	,09	,63	,2788	,15460
CGPI	40	80.66	94.94	88.1450	3.92449
ROA	40	,00	,21	.0454	0.05606
Valid N (listwise)	40				

Source: SPSS 25. output data

3.1 Normality Test

Normality test is used to determine the distribution of data. Is it normally distributed or not. To find out whether the data is normally distributed, the Kolmogorov Smirnov test must be carried out (Ghozali, 2013). The following are the results of normality testing in this study using SPSS 25 as follows:

Table 4. Normality Test One Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		40
Normal Parameters, b	mean	,0000000
	Std. Deviation	,01514019
Most Extreme Differences	Absolute	,101
	Positive	,101
	negative	-,068
Test Statistics		,101
asymp. Sig. (2-tailed)		,200c,d

Source: SPSS 25. output data

Based on the results of the normality test above, it can be seen that the significance value obtained is 0.200> 0.05, it can be interpreted that the data in this study are normally distributed.

3.2 Multicololecularity Test

This test was conducted to calculate the VIF value of each independent variable. Multicollinearity test was conducted to identify the relationship between independent variables. The following are the results of the Multicollinearity Test from this study:

Table 5. Multicollinearity Test Results

Coefficientsa

Model		Collinearity Tolerance	VIF Statistics
1	SRDI	,100	9,985
	CGPI	,100	9,985

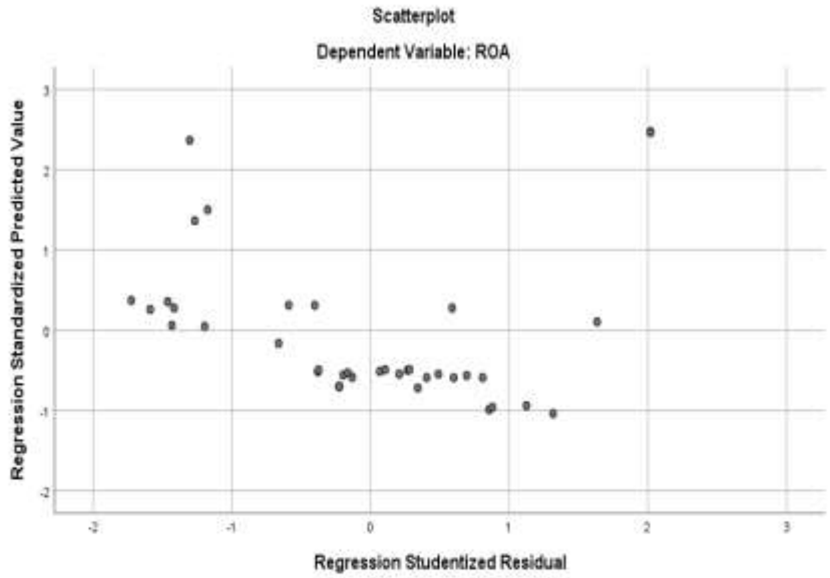
a. Dependent Variable: ROA (Y)

Source: SPSS 25. Output Data

From the results of the multicollinearity test above, it can be seen that the SRDI variable VIF value is 9.985. The CGPI variable VIF value is 9.985. From these results, it shows that there is no multicollinearity or relationship between variables in the research data.

3.3 Heteroscedasticity Test

Heteroscedasticity test was carried out with the aim of knowing whether in the model there was an inequality of residual variance from one observation to another.



Source: SPSS 25. output data

Figure 1. *Heteroscedasticity Test Results*

Based on the scatterplot image above, it can be seen that the pattern spreads (does not form a certain pattern) which means if there are no symptoms of heteroscedasticity.

3.4 Hypothesis testing

a. Simultaneous Test (F Test)

Simultaneous test is conducted to determine whether the independent variable has a simultaneous influence with the dependent variable. The following are the results of the F test in this study:

Table 6. Simultaneous Regression Test

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,114	2	0.057	235,137	,000b
	Residual	,009	37	,000		
	Total	,123	39			

a. Dependent Variable: ROA
b. Predictors: (Constant), CGPI, SRDI
Source: SPSS 25. Output Data

Based on the results of the analysis above, it can be seen that the Fcount value is 235.137 and a significant value is .000. Then the model is feasible.

b. Partial Test (t Test)

Partial test or t test was conducted with the aim of knowing the effect between the dependent variable and the independent partially by looking at the significance of the t value of 5%.

Table 7. t test results

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,719	,163		4,405	,000
	SRDI	,568	0.051	1,567	11.168	,000
	CGPI	-,009	,002	-,661	-4,712	,000

a. Dependent Variable: ROA
Source: SPSS 25. output data

Based on the output results above, it can be seen that the SRDI variable has a significant positive effect on financial performance (ROA) with a coefficient of 11.168 and a significance value of 0.000 <0.05. So it can be concluded that the first hypothesis accepts Ha and rejects H0. Furthermore, it can be seen that the CGPI variable has a significant negative effect on financial performance (ROA). With a coefficient of -4.712 and a significance value of 0.000 <0.05. So it can be concluded that the second hypothesis accepts Ha and rejects Ho, thus the hypothesis is proven.

3.5 Coefficient of Determination Test

The coefficient of determination test aims to determine the extent of the contribution of the independent variable in explaining the variation of the dependent variable in the regression model. The results of testing the coefficient of determination from this study can be seen in the following table

Table 8. Results of the Coefficient of Determination

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,963a	,927	,923	0.01554	,665

a. Predictors: (Constant), CGPI, SRDI

b. Dependent Variable: ROA

Source: SPSS 25 . Output Data

Based on the results of the correlation test above, it can be seen that the Adjust R Square coefficient is 0.923. So it can be said that the variation of ROA can be explained by the SRDI and CGPI variables of 92.3%. 7.7% is influenced by other variables outside of this study.

IV. Conclusion

The results of this study indicate that the higher the level of disclosure in Sustainability Reporting, then it will affect the increase in Corporate Financial Performance (ROA). The results of CGPI's research on ROA show significant negative results, which means specifically that good CGPI disclosure will affect CFP even though the company's financial performance is bad or in other words CGPI will boost poor CFP results. This is because the market response to the implementation of good corporate governance will increase investor confidence even though the company does not make a profit or does not perform well but has been managed transparently.

Suggestion

This research topic should be carried out in a longer period of time, this is because at this time there is still a lack of company awareness regarding the importance of reporting on Sustainability Reporting which results in at least a sample of research companies that publish the report consistently, in this study only 8 companies disclosed SR and followed CGPI consistently and consecutively from year to year and caused the results obtained to be unsatisfactory. It is hoped that for future research purposes there will be changes to Government Regulations that require companies to report these two independent variables so that it will increase awareness for companies to simultaneously issue sustainability reports and good governance.

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