

The Effect of Profitability and Leverage on Sustainability Reporting and Its Impact on Earnings Informativeness

Muhamad Bisma¹, Lia Uzliawati², Windu Mulyasari^{3*}

^{1,2,3*} Fakultas Ekonomi dan Bisnis, Sultan Ageng Tirtayasa University

Corresponding Author: windumulyasari@untirta.ac.id^{3*}

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Abstract: *This study aims to examine the effect of profitability and leverage on sustainability reporting and its impact on earning informativeness on the Indonesia Stock Exchange 2018-2022. This study takes the mining sector because this sector is the sectors that contribute to Non-Tax State Revenue. The sampling technique used in this study is the purposive sampling method. The data analysis technique of this study uses multiple regression analysis and simple regression analysis. The results of this study prove that profitability (ROA) and leverage (DER) have a negative and significant effect on sustainability reporting (SRDI). Besides, sustainability reporting (SRDI) has a positive and significant effect on earning informativeness (ERC).*

Introduction

Stakeholders in making decisions need informative information. Information is considered informative if the information submitted can change stakeholder confidence in making decisions (Luthfi, 2013). The main source of information for stakeholders in making decisions is the company's profit report which comes from the financial statements (Mulyadi, 2016). The company's profit report becomes the main information for stakeholders in making decisions because it can describe the company's performance over a period. The company's profit information can also be used as a reference in measuring the prospects for the company's performance in the future.

The management companies often manipulate information in the financial statements of one of them on the part of the company's profit information. This is done so that the decisions taken by stakeholders are following the wishes of the company. This makes the information provided by the company become detrimental to stakeholders because it does not reflect the actual performance of the company. The manipulated company profit information also cannot reflect the company's performance in the future. Several cases of information manipulation that occurred in Indonesia include PT. Garuda Indonesia Tbk. 2019, PT. Timah Tbk. 2016, and PT. Cakra Mineral Tbk. 2016.

Based on the three cases above, it is proven that the company is still manipulating financial statement information, one of them is information related to company profits. This makes earnings information untrustworthy by stakeholders in decision-making and makes company profit information uninformative. One way to avoid manipulation of earnings information which causes earnings to be uninformative, the stakeholders want the company to disclose more information. One of the desired reports is sustainability reporting. It makes the information provided by the company diverse, not only limited to company performance information but also the impact given by the company from economic, social, and environmental aspects. This makes the information disclosed by the company more transparent (Swarnapali, 2020). The existence of sustainability reporting can strengthen the company's earnings informativeness because stakeholders believe that the earnings information disclosed by the company is by the actual conditions.

Several researchers have examined the disclosure of sustainability reporting on earnings informativeness. Swarnapali, (2020) proves that the disclosure of sustainability disclosure has a positive effect on earnings informativeness in companies listed on the Colombo Stock Exchange in Sri Lanka period 2012 to 2016. Similar results are also explained in the research of Rachmawati, (2016) which states that the disclosure of social responsibility has a positive effect on the earnings response coefficient in manufacturing companies listed on the IDX in 2012-2014. Similar results are also found in the results of research by Albra and Fadila, (2017) which state that corporate social responsibility has a positive effect on the earnings response coefficient in manufacturing companies whose shares are listed on the sharia index on the BEI in 2012-2014. Similar results are also found in the results of Kristia and Septiani's research, (2019) which states that sustainability disclosure has a positive effect on the quality of corporate earnings information on companies in the agricultural sub-sector and

mining sub-sector listed on the Indonesia Stock Exchange in 2014-2016. Similar results are also proven by Fernando et al., (2017) who states that voluntary disclosure has a positive effect on the market response to corporate earnings announcements based on Compustat data and CSR files from 2001-2014. Similar results are also proven by Jouber, (2020) who states that corporate social responsibility has a positive effect on the quality of corporate earnings information based on combined data from 2012-2017.

Different research results were found by Mulyadi (2016) which proves that corporate social responsibility has a negative effect on earnings informativeness in manufacturing companies listed on the IDX in 2014-2015. Similar results were also found by Rusdin, (2016) who proved that corporate social responsibility had a negative effect on earnings informativeness in all companies listed on the IDX in 2013-2014. Different results are found in the research of Hermi and Tanin, (2013) which proves that corporate social responsibility has no significant effect on earnings informativeness in companies listed on the IDX in 2007-2008. The same result was also found by Mutira, (2019) which proves that corporate social responsibility has no effect on earnings informativeness in manufacturing companies listed on the Indonesia Stock Exchange in 2015. Similar results are also explained by Awuy et al., (2016) who state that corporate social responsibility does not affect earnings informativeness in mining companies listed on the IDX in 2010-2013. The results of a similar study are also explained by Fitriana and Andayani, (2016) who prove that corporate social responsibility did not affect earnings informativeness in manufacturing companies in 2011-2014.

Disclosure of sustainability reporting is influenced by the profitability and leverage of the company. Profitability is the ratio that indicates the company's performance in utilizing existing assets in the company to achieve profits. The higher the level of company profitability, the more companies make disclosures (Rofiqkoh dan Priyadi, 2016). This is to provide confidence to stakeholders if the profitability generated by the company does not ignore its impact from both economic, social, and environmental aspects (Diono dan Prabowo, 2017). On the other hand, more disclosure can also be used to attract investors and provide confidence in the quality of company earnings (Karaman et al., 2018).

Leverage is a ratio that measures the proportion or level of use of debt to finance the company's operations (Ihdina et al., 2019). The higher the company's leverage ratio, the greater the company's burden to pay the principal and interest so the risk of loss is also higher. This will make the company consciously or not only prioritize the profit that will be generated compared to the impact that will be caused. This makes the loss experience stakeholders on the impact generated by the company. This will make stakeholders demand the company to make more disclosures. This is done to assure stakeholders if the company will not deny their rights (Putri dan Christiawan, 2014). The presence of more disclosure can also be used by companies to reduce the spotlight on the debtor as a stakeholder involvement in debt (Rofiqkoh dan Priyadi, 2016). This is because more disclosure will make the debtor believe that the company can reduce the risk of loss.

Several researchers have investigated the effect of profitability and leverage on sustainability reporting. Liana, (2019) proves that profitability has a positive effect and

leverage has a negative effect on the sustainability report of mining companies listed on the Indonesia Stock Exchange in 2011-2015. Afsari et al., (2017) prove that leverage has a negative effect on sustainability reports in companies that followed ISRA in 2013-2015. Setiawan et al., (2019) prove that profitability has no effect and leverage has a negative effect on the sustainability report disclosure of companies listed on the IDX and the Malaysian Stock Exchange in 2013-2017. Wulandari dan Sudana, (2018) proves that profitability has no effect and leverage has a negative effect on the intensity of CSR disclosure in mining companies listed on the IDX in 2013-2016. Branco et al., (2014) prove that profitability has a positive effect and leverage has a negative effect on SRA on companies in Portugal in 2008 and 2011.

Aniktia dan Khafid, (2015) proves that profitability has no effect and leverage has a positive effect on the sustainability report of companies listed on the IDX in 2013. Anggiyani dan Yanto, (2016) proves that profitability and leverage have a negative effect on the disclosure of sustainability reports in all companies listed on the IDX in 2009-2013. Karaman et al., (2018) prove that profitability has no effect and leverage has a positive effect on sustainability reporting for airline companies around the world in 2006-2015. Rifandi, (2017) proves that profitability and leverage have no significant effect on sustainability reporting in companies listed on the IDX in 2013-2015. Limbong, (2019) proves that profitability has a negative effect and leverage has no significant effect on corporate social responsibility in mining companies in 2014-2017. Diono dan Prabowo, (2017) proves that profitability has a positive effect on the level of disclosure of sustainability reports in companies listed on the IDX in 2013-2015. Sari dan Marsono, (2013) proves that profitability has a negative effect and leverage has no significant effect on sustainability reporting in companies listed on the IDX in 2009-2011. Bhatia dan Tuli, (2017) proves that profitability and leverage have a negative effect on the sustainability disclosure of companies in India listed on the Bombay Stock Exchange in 2010-2011. Wong et al., (2016) prove that profitability has a negative effect and leverage has no effect on sustainability assurance in the top 100 companies listed in the UK and USA in 2010-2011.

This study carried out several updates from the main research references, namely the research of Karaman et al., (2018); and Swarnapali, (2020). The update carried out is that in this study researchers took the mining sector listed on the Indonesia Stock Exchange in 2015-2019 for research data. Meanwhile, research by Karaman et al., (2018) takes the aviation sector listed worldwide in 2006-2015, and research by Swarnapali, (2020) takes companies listed on the Colombo Stock Exchange in Sri Lanka in 2012-2016.

This study takes the mining sector because this sector is a sector that is in demand by investors both foreign and domestic (Prayosho dan Hananto, 2013). The mining sector is also included as one of the sectors that contribute to Non-Tax State Revenue. The National Development Planning Agency also explained that one of the sectors that affect environmental development is the mining sector.

Relevant Literature

This study uses stakeholder theory as a research theory. Stakeholder theory is a theory that explains if the company should be accountable to all parties having an interest in the company (Freeman dan McVea, 2001). Because stakeholders have an important role in the sustainability of the company (Lindawati dan Puspita, 2015). The success of a company's business is determined by the support of stakeholders in the company.

Earnings Informativeness

Earnings informativeness is defined as the ability of earnings in the current period that assist investors in determining the rate of return or return in the future (Roychowdhury dan Sletten, 2012). Earnings informativeness can also be interpreted as changes in stock prices that occur at that time due to the response of investors or market participants to profit information announced by the company in its financial statements. (Mulyadi, 2016).

Sustainability Reporting

Sustainability reporting is reporting disclosures about the organization's impact, whether positive or negative on the environment, society, and economy to assist in understanding and managing the impact of sustainability development on the organization's activities and strategies. (GRI, 2016).

Profitability

Profitability is defined as a ratio to measure the company's ability to generate profits by using the company's resources (Rifandi, 2017). Profitability can be used by stakeholders to make a decision (Rofiqkoh dan Priyadi, 2016). The higher the profitability of the company, the better the company manages the assets that exist in the company. Profitability will affect stakeholder policies in making decisions.

Leverage

Leverage is a ratio that measures the proportion or level of use of debt to finance the company's operations (Ihdina et al., 2019). Leverage is also defined as a ratio that measures how much the company's ability to pay off debt, both short-term debt and long-term debt (Rifandi, 2017).

Hypothesis Formulation

Based on stakeholder theory, companies with high profitability will make more disclosures than companies with low profitability. This is to assure stakeholders that the profitability generated by the company is not ignoring its impact on the economic, social, and environmental (Diono dan Prabowo, 2017). On the other hand, more disclosure can also be used to attract investors and provide confidence in the quality of company earnings (Karaman et al., 2018). It can be concluded that the company's profitability has a positive influence on sustainability reporting.

This hypothesis agrees with the results of research by Diono and Prabowo, (2017); Liana, (2019); and Branco et al., (2014) which state that profitability has a significant positive effect on the disclosure of sustainability reporting.

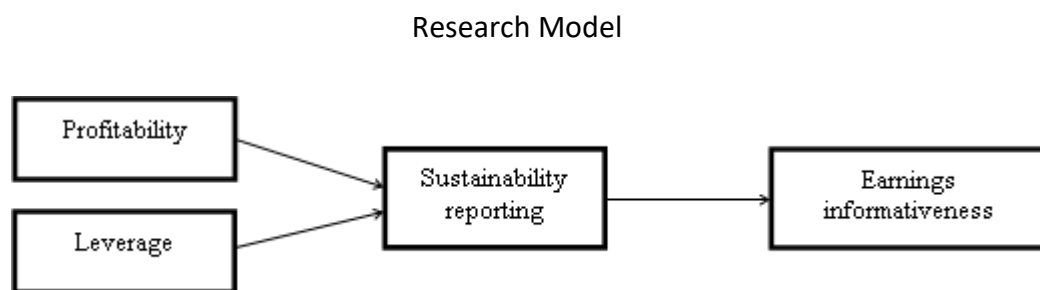
H1: Profitability has a positive effect on sustainability reporting.

Based on Stakeholder Theory, companies that have high leverage will disclose more information. This is more used by companies to give confidence to stakeholders if the company will not deny their rights (Putri dan Christiawan, 2014). This is more used by companies to assure stakeholders if the company will not deny their rights (Rofiqkoh dan Priyadi, 2016). It can be concluded that leverage has a positive effect on sustainability reporting. This hypothesis agrees with the research results of Karaman et al., (2018); and Aniktia and Khafid, (2015) where the results of their research explain that leverage has a significant positive effect on sustainability reporting.

H2: Leverage has a positive effect on sustainability reporting.

Based on stakeholder theory, the disclosure of sustainability reporting makes the information provided by the company vary, not only limited to company performance information but also the impact given by the company from economic, social, and environmental aspects. This makes the information provided by the company more transparent (Swarnapali, 2020). This makes stakeholders believe that the profit information disclosed by the company is under the actual conditions. So it can be concluded that sustainability reporting has a positive effect on earnings informativeness. This hypothesis agrees with the research results of Swarnapali, (2020); Rachmawati, (2016); Kristia and Septiani, (2019); Fernando et al., (2017); and Joubert, (2020) which states that sustainability reporting has a significant positive effect on earnings informativeness.

H3: Sustainability reporting has a positive effect on earnings informativeness.



Source: Research Model 2023

Figure 1. Research model

Research Method

This research is associative research, which is research that aims to obtain information about the relationship and the influence of two or more variables. This study discusses the effect of measures of profitability and leverage on sustainability reporting and its impact on earnings informativeness. The study covers mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022.

Population and Sample

The population used in this study are companies engaged in the mining sector, which have gone public and listed on the Indonesia Stock Exchange (IDX) for the 2017-2022 period. The use of these five periods is to be able to see the consistency of the influence of the

independent variable on the dependent variable and to be able to know more about real events in the long term.

Samples were selected by purposive sampling method, meaning that the sample used in this study is the sample that meets certain criteria. The criteria used in sampling are as follows:

1. Mining companies listed on the IDX consecutively from 2017-2022.
2. Companies that have consecutive profits from 2017-2022.
3. Companies that publish annual reports and financial reports with complete data needed for 2017-2022.
4. Publish the sustainability reporting in a row that is needed during 2017-2022.
5. No corporate action during the research period.
6. Have daily stock historical data ± 5 days after the issuance of the company's financial statements.

Research Variable

The dependent variable used in this study is earnings informativeness which can be interpreted as changes in stock prices that occur at that time due to the response of investors or market participants to earnings information announced by the company in its financial statements. (Mulyadi, 2016). earnings informativeness can be measured using the Earnings Response Coefficient (ERC), which is a coefficient obtained from the regression between stock price proxies and accounting earnings.

The independent variable used in this study is Sustainability reporting (SR). The measurement of SR uses the content analysis method, namely by codifying by providing a checklist on the disclosure of SR indicators following the Global Report Initiative (GRI) guidelines.

The antecedent variables used in this study are profitability and company leverage. Profitability in this study uses the measurement of Return on Assets (ROA). Leverage in this study uses the measurement of Debt-to-Equity Ratio (DER).

Analysis Method

This study uses two analytical methods, multiple regression analysis on model 1 and simple regression analysis method on model 2 with the following equation:

Model 1

$$SR_{i,t} = \alpha + \beta_1 ROA_{i,t} + \beta_2 DER_{i,t} + e$$

Model 2

$$ERC_{i,t} = \alpha + \beta_1 SR_{i,t} + e$$

α : Constant

β : Regression Coefficient

e : Error term

$ROA_{i,t}$: Return on Asset of a company i in year t

$DER_{i,t}$: Debt to Equity Ratio of company i in year t

SRI,t : Sustainability Reporting of company i in year t

ERC_{i,t} : Earning Response Coefficient of a company i in year t

Table 1. Variable Operation

Variable	Variables Definition	Measurement	Scale
Sustainability Reporting (X)	Sustainability reporting is reporting the disclosure of the impact that the organization either positively or negatively on the environment, society, and economy that helps in understanding and managing the impact of sustainable development on the activities and strategy of the organization (GRI, 2016).	SRDI = $\frac{\text{Number of items disclosed}}{\text{Number of 2016 GRI guideline items}}$	Ratio
Earnings informativeness (Y)	Earnings informativeness can also be interpreted as changes in stock prices that occur at that time due to the response of investors or market participants to earnings information announced by the company in its financial statements (Mulyadi, 2016).	Earnings Response Coefficient $CAR_{i,t} (-5,+5) = \alpha + \beta 1UE_{i,t} + \varepsilon_{i,t}$	Rasio
Profitability (Z)	Profitability is a ratio that measures how much the company's rate of return. Profitability is also defined as a ratio to measure the company's ability to generate profits using the company's sources (Rifandi, 2017).	ROA = $\frac{\text{EAT}}{\text{Total Asset}}$	Rasio
Leverage (Z)	Leverage is a ratio that measures the proportion or level of use of debt to finance company operations (Ihdina et al., 2019).	DER = $\frac{\text{Total Debt}}{\text{Total Equity}}$	Rasio

Result and Discussion

Based on table 2, it is found that the significance value of F for each model is 0.005 for model 1 and 0.000 for model 2 where both values are below 0.05 so it can be concluded that the research model is feasible and regression analysis can be performed. Table 2 also explains if the value of Adj. The R-Square in model 1 is 0.169 which indicates that the ROA and DER variables are only able to affect the SR variable by 16.9% and the rest is influenced by other variables outside the study. Table 2 also explains if the value of Adj. The R-Square for model 2 is 0.251 which indicates that the SR variable is only able to affect the ERC variable by 25.1% and the rest is influenced by other variables outside the study.

The results of the regression analysis in table 2 explain if profitability has a negative effect on sustainability reporting. This is indicated by the magnitude of the regression coefficient of the variable 1 of -0.531 with a significance level (p-value) of 0.039 which is below the 0.05 significance level. These results prove that hypothesis 1 in this study is rejected.

Table 2. Model Feasibility Test and Regression Analysis

Model 1 : $SRI_t = \alpha + \beta_1 ROA_t + \beta_2 DER_t + e$						
Model 2 : $ERC_t = \alpha + \beta_1 SRI_t + e$						
Variables	Model 1			Model 2		
	Beta	T	Sig.	Beta	T	Sig.
(Constant)	-0,444			-0,835		
ROA	-0,531	-2,119	0,039**			
DER	-0,149	-3,416	0,001*			
SR				3,419	3,967	0,000*
Adj. R-Square	0,169					0,251
F	5,979					15,734
Sig. (Test F)	0,005					0,000

* Significance level 0,01

** Significance level 0,05

Dependen variabel : SR (Model 1), ERC (Model 2)

The results of the regression analysis in table 2 also explain if leverage has a negative effect on sustainability reporting. This is indicated by the magnitude of the regression coefficient of the variable 2 of -0.149 with a significance level (p -value) of 0.001 which is below the 0.01 significance level. These results prove that hypothesis 2 in this study is rejected.

The results of the regression analysis in table 2 explain that sustainability reporting has a positive effect on earnings informativeness. This is indicated by the magnitude of the regression coefficient of the variable 1 of 3.419 with a significance level (p -value) of 0.000 which is below the 0.01 significance level. These results prove that hypothesis 3 in this study is accepted.

Discussion

Effect of Profitability on Sustainability Reporting

Based on the regression analysis, it can be concluded that profitability has a negative effect on sustainability reporting. These results suggest that the company does not feel the need to make more disclosures when the company's profitability is high because high profitability information is considered sufficient to attract stakeholder interest in the company (Nugroho dan Yulianto, 2015). Conversely, when the company's profitability is low, the company will do more additional disclosures, one of which is sustainability reporting to cover the low profitability generated by mining companies. Based on the results of this study, it can be explained that mining companies are still not optimal in meeting the demands of stakeholders because they still rely on profitability as the main information in meeting the information needs of stakeholders. This study failed to prove the stakeholder theory as the theory underlying this study. This theory states that profitability has a positive effect on sustainability reporting because sustainability reporting will convince stakeholders that the company's profitability does not have a negative impact on economic, social, and environmental aspects.

The results of this study are in line with the research of Anggiyani and Yanto, (2016); Limbong, (2019); Sari and Marsono, (2013); Bhatia and Deaf, (2017); and Wong et al., (2016) which state that profitability has a negative effect on sustainability reporting. However, the results of this study are not in line with the results of research by Setiawan et al., (2019); Wulandari and Sudana, (2018); Karaman et al., (2018); and Rifandi, (2017) states that profitability has no significant effect on the disclosure of sustainability reporting sustainability. The results also do not concur with those of Liana, (2019); Diono and Prabowo, (2017); and Branco et al., (2014) which states that profitability has a positive effect on sustainability reporting. Researchers speculate that the reason for the difference in these results is caused by differences in characteristics due to different stakeholders and different sectors examined during the study period.

Effect of Leverage on Sustainability Reporting

Based on the regression analysis, it can be concluded that Leverage has a negative effect on sustainability reporting. These results suggest that the company still considers sustainability reporting as a cost and must be reduced if the company has high leverage so that the profits generated by the company remain high (Liana, 2019). Conversely, when the company has low leverage, the company will disclose more sustainability reporting. This is done by the company because companies with low leverage do not have debt interest expenses and also large debt principals so mining companies can disclose more sustainability reporting. The results of this study can explain if mining companies in implementing Law Number 40 of 2007 are still not optimal. This study failed to prove the stakeholder theory as the theory that underlies this research. This theory states that leverage has a positive effect on sustainability reporting.

The results are consistent with the results of research by Liana, (2019); Afsari et al., (2017); Setiawan et al., (2019); Wulandari and Sudana, (2018); Branco et al., (2014); Anggiyani and Yanto, (2016); and Bhatia and Tuli, (2017) which state that leverage has a negative effect on sustainability reporting. However, these results do not concur with those of Karaman et al., (2018); and Aniktia and Khafid, (2015) who state that leverage has a positive effect on sustainability reporting. The results of this study are also not in line with the results of Rifandi's research, (2017); Limbong, (2019); Sari and Marsono, (2013); and Wong et al., (2016) which states that leverage has no significant effect on sustainability reporting. Researchers speculate that the reason for the inequality in this study is due to different sectors studied so that the characteristics of different stakeholders participating studied and research different timescales.

The Effect of Sustainability Reporting on Earnings Informativeness

Based on the regression analysis, it can be concluded that sustainability reporting has a positive effect on earnings informativeness. This can prove that the existence of sustainability reporting will make stakeholders believe that the company's profit information announced is under the actual conditions. The results could be evidence if the stakeholders involved with mining companies already use sustainability reporting as additional information on the company's profit information for decision-making. This study proved the stakeholder

theory as the theory underlying this research stating that sustainability reporting a positive effect on earnings informativeness.

The results are consistent with the results of Swarnapali, (2020); Rachmawati, (2016); Kristia and Septiani, (2019); Fernando et al., (2017); and Joubert, (2020) which states that sustainability reporting has a positive effect on earnings informativeness. However, this result is not consistent with the results of research by Mulyadi, (2016); and Rusdin, (2016) which the results also do not concur with those of Hermi and Tanin, (2013); Pearl, (2019); Awuy et al., (2016); and Fitriana and Andayani, (2016) which state that sustainability reporting does not affect earnings informativeness. Researchers suspect that the difference in the results of this study is caused by differences in the sector and location of the research carried out so that the characteristics of the company are also different, and the period of the research conducted.

Conclusion

Based on the discussion of the results of this study, the following conclusions were obtained. The profitability variable has a significant negative effect on sustainability reporting, so hypothesis 1 (H1) is rejected. This result proves that mining companies feel that the company's information is sufficient to attract the interest of mining company stakeholders so that the company does not feel the need to make more disclosures, one of which is sustainability reporting. The leverage variable has a significant negative effect on sustainability reporting, so hypothesis 2 (H2) is rejected. These results prove that mining companies still view sustainability reporting as a cost that must be reduced when the company's leverage is high and prioritize the profits generated to attract stakeholders. The variable sustainability reporting has a significant positive effect on earnings informativeness, so hypothesis 3 (H3) is accepted. The results of this study prove that sustainability reporting has been used by stakeholders to strengthen earnings informativeness.

This research uses restatements in several financial reports mining companies from total assets and sustainability reporting from GRI updates have resulted in significant and likely differences giving rise to inconsistent research data. This research also uses possible sustainability reporting and annual report content errors occur due to the author's subjectivity. This is a limitation because the data in sustainability reporting is from an economic, environmental, and environmental perspective social factors that are reliably measured by professional institutions are not yet available or generally accessible, so writers still use it global standard, namely GRI-2016.

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