Corporate Issues on Performance Reporting: Why Must It be Sustainable?

Noorhana Sesar Sari[1], Hilmi Satria Himawan[2], Muhammad Riza Hafizi[3]

{ noorhanass25@gmail.com[1], himawanhs@iain-palangkaraya.ac.id[2]

riza.hafizi@iain-palangkaraya.ac.id[3]}

State Islamic Institute of Palangka Raya, Indonesia

Abstract. Sustainability report is a part of performance report which has a function as a delivery of performance output to internal or external user. Besides, using GRI Index to measure sustainability performance, green accounting is used to record and budget environmental and social costs allocation in order to increase social and environment quality., this research, therefore, intends to to reveal the link between triple bottom line and sustainability report disclosure, and board remuneration is used as moderating variable. This research shows that triple bottom line (TBL) has a positive influence on sustainability report disclosure (SRD). However, board remuneration is unable to moderate the link between triple bottom line (TBL) and sustainability report disclosure (SRD) due to the higher remuneration that tend to lead to asset misappropriation. It is concluded that applying triple bottom line concept is able to intensify the extent of sustainability disclosure, but board remuneration is unable to enhance the performance.

Keywords: Board Remuneration, Green Accounting, Triple Bottom Line, Sustainability Report Disclosure.

1 Introduction

The development of human behavior in the last few decades has brought unfavorable impacts, such as climate changes, heat waves, and natural disasters caused by human activities. Various activities carried out has a negative impact, especially on nature and social relationships.[1] For example, to fulfill industry material, they are cutting trees as a row material, but there is no reforestation activity. If they do this repeatedly, over time the supply of natural resources will decrease and may become rare. This case also impacts human because the more trees are logged, the less oxygen is produced and this also increases the risk of flooding.[2] Therefore, the industrial revolution led to a pattern of behavior that if not accompanied by a virtuous mind, it would have caused behavioral degradation to fulfill their desire without thinking about the needs of others. This shows that changes in behavior and habits allow humans to act rationally and manage effectively and efficiently the activities carried out, especially in industrial revolution movement era.

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The industrial revolution becomes a global economic upturn that made the economic sector move rapidly. Unfortunately, the industrial revolution cause various threats that can be a boomerang for the industry itself. The existence of this economic growth then has an impact on the emergence of pollution problems, inadequate housing, poverty, and increasing poor health conditions because of the lack of strategy to manage industry operations.[3] Waste produced by industry is a warning sign that can damage the health quality of living things and the sustainability of the ecosystem in it. This threat also affects the economic welfare of the community, such as rising prices of goods due to scarcity supply.[4] Simultaneously, the exploitation of natural resources in the form of raw materials and non-renewable materials lead to a decrease in the stock of natural resources for future generations.

According to Economist Intelligence Unit' data published in 2017, Indonesia is the second largest waste producing country in the world and food waste is the most dominating.[5] During 2021, from the calculation of the national waste tabulation, Indonesia produces 39.67% of food waste.[6] According to *Global Hunger Index* 2021, Indonesia is a country that has the third highest cases of hunger in the ASEAN countries.[7] These negative side will continue affecting so many aspects in Indonesia even could make it worst if the government, corporation, and society do not participate undertaking sustainable things. In order to reach sustainable development goals, Indonesia has to manage its high demographic potential and abundant natural resources as best as possible.

Sustainable development in Indonesia is becoming a platform for companies to be responsive to social and environmental issues. Although in running its activities the company seems to take natural resources, the company also supports the sustainability process itself by providing both services and materials to facilitate sustainability activities. But it is not enough to conduct sustainability activities on a voluntary basis. Therefore, the government must play a role in pushing the mandatory obligation for companies to implement social and environmental responsibility policies. The Indonesian government has issued a law number 40 of 2007 concerning on social and environmental responsibility for companies which briefly states that companies whose activities are related to natural resources are obliged to report them in a social and environmental responsibility report.[8] Problems arising from this regulation is that there are several companies whose activities are not related to natural resources, but still produce waste as an example - companies engaging in infrastructure. The Ministry of Environment and Forestry report that 60 million tons of B3 waste are generated, and only 13.26 tons have been utilized.[9] This means that more than 40 million tons of waste have not been utilized or managed, which is required to reporting activities related to the social and environment.

In accounting, the purpose of reporting is to make efficient allocation of costs based on decisions made and to measure company performance. Therefore, environmental or social accounting can be an intermediary in maximizing the application of sustainability concepts in an organization through the form of a sustainability report. The concept of sustainable development itself is taken from the concept triple bottom line which describes the balance of economic, social, and environmental aspects.[10] The company's sustainability activities are often referred to as CSR (corporate social responsibility). With this TBL framework it can help to analyze which aspects should be improved or aspects that have research limitations.[11] TBL is also the main proxy for measuring sustainability in companies.[12] If viewed from the perspective stakeholder and legitimacy theory, companies are part of the social system [13] and have a social contract [14] with the community. Thus, all forms of action taken must be based on existing norms and able to provide benefits to the stakeholder community. By implementing the TBL concept, it is expected that the company is able to survive because it gains the support of stakeholders and the public.

To maximize the application of the TBL concept, companies must not only have sufficient natural resources, but also human resources who not only have special skills in the field of work, but also an understanding of the TBL concept. According to Barney [15] in his theory resource-based view that the company will acquire a competitive advantage or superior performance only when the resource has a value. The value is meant when these resources are able to increase the effectiveness and efficiency of implementing the company's management strategy. The previous studies have shown that remuneration has an impact on executive performance in carrying out corporate CSR strategies and activities. [16] Therefore, this study seeks to answer the link between triple bottom line concept on sustainability report disclosure and see how massive the impact is from board remuneration on applying the concept and disclosing sustainability report.

2 Literature Review

2.1 Triple Bottom Line

Triple Bottom Line is a concept initiated by John Elkington in his book Cannibals with Forks 1998, which contains a sustainable business concept.[10] Before the concept of TBL was introduced, the term CSR was the first business ethics concept proposed by Howard Bowen in his book Social Responsibility of Businessmen in 1953 that focuseon social activity. TBL concept then puts in the idea of protecting the environment, which was previously not addressed in CSR concepts. Now, the company responsibility is known as a sustainability action, and sustainability activities have been structured in the Global Initiative Report (GRI) guidelines, see Figure 1.

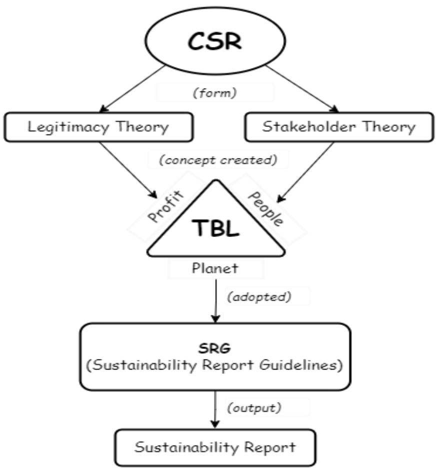

Fig. 1. Sustainability Evolution

In general, business organizations or for-profit companies want to earn profits from their business activities. With the emergence of social and environmental responsibility reporting, the company must incur costs used for the implementation of social and environmental responsibility activities. Several studies (Kartini, etal. [18] & Aji [19]) show that using ROA has a positive effect on sustainability report because ROA is one of the ratios that can evaluate how effectively the company uses its funds. Even, ROA is variable that has the most dominant influence on sustainability disclosure report.[19] Other studies refer to the social aspect that uses intensity of research and development (IRND) variables showing that IRND has a positive effect on CSR in manufacturing companies. [20] In the environmental aspect, the factor that has a significant influence on the implementation of the triple bottom line concept is environmental costs. Study from Adyaksana et.al show that environmental costs affect environmental disclosure in sustainability reports.[21] The more the company spends funds on environmental matters, the company has a strong awareness of disclosing proper environmental performance so that companies that successfully control environmental costs will produce qualified information related to environmental conservation efforts.

Related research with *Triple Bottom Line* construct using financial ratios as a form of measurement is still limited. Several studies using this construct still use the GRI index. Khafi etal. [22] found that TBL has a positive effect on CSR disclosure. Other research from Latifah [23] who uses gross profit margin as an economic indicator finds that *Triple Bottom Line* has a positive effect on firm value. Based on the results of the previous research and the problems observed by the researchers, the hypothesis is:

H1: Triple Bottom Line has a positive influence on sustainability report disclosure.

2.2 Board Remuneration as Moderating Variable

Compensation is a form of giving rewards for work done by looking at the achievements of the workers themselves. Work performance can be assessed and measured based on an assessment that has been objectively determined by the organization.[24] The employee reward system is based on applicable regulations. However, there are several considerations that must be the focus of an organization or company in determining the salary or wages of its employees, including the type of work, length of work, level of education, and expertise.[25]

The executive board has an authority to create a sustainable corporate performance. Therefore, motivation in the form of remuneration is expected to provide encouragement to directors and commissioners to be consistent in carrying out their performance. Providing remuneration can also increase the competence and capability of the directors and commissioners. Previous research by Callan [22] and Jian [23] proved that there is a positive relationship between remuneration and CSR. This research is also supported by Nyatichi [24] who found that remuneration for directors can moderate the relationship between board composition and financial performance. Based on the previous problems and research, the research hypothesis is:

H2: Board remuneration moderates the link between triple bottom line and sustainability report disclosure.

3 Methods

To obtain the sample for this study, the researchers used a purposive sampling technique based on the population of companies listed on the Indonesia Stock Exchange. The criteria of the sample were industry sector by manufacturing, agro-industrial and construction companies that published annual reports and sustainability reports for the 2019-2021 period, companies that disclosed the remuneration of directors and commissioners separately, and companies that recorded environmental costs. Based on these criteria, this study obtained data from 19 companies with a total of 57 observations. This study used the SmartPLS3 measuring tool in carrying out research data.

The endogenous variable in this study is TBL or *Triple Bottom Line* which used three indicators, including ROA, RND Intensity, and Environmental Costs. For exogenous variables in this study, Sustainability Report Disclosure used three indicators, including Economic Performance, Environmental Performance, and Social Performance as measured by the GRI index (*Global report initiative*) with a total of 86 disclosures with each performance consists of 9 economic aspects, 44 social aspects, and 33 environmental aspects of disclosures. Meanwhile, the moderating variable used is remuneration which consists of two indicators, directors remuneration and commissioners remuneration.

Table 1. Variable Measurement

Variable	Abbreviation	Parameter
Return On Assets	ROA	Net income after taxes divided by total assets
RND intensity	IRND	Dummy score using 1 and 0*
Environmental Costs	BL	Environmental Cost divided by net income after taxes
Economic Performance	EC	
Environmental Performance	EN	The number of item disclose divided with the number of item expected to disclose
Social Performance	SC	
Commissioner Remuneration	KO	Natural logarithm
Directors Remuneration	DI	Natural logarithm

Note: Score 1 is defined that company disclosing RND Cost, and 0 is a contrary*

4 Results and Discussions

The results of descriptive statistics can be seen in table 2. During 2019-2021 from 19 firms, Economic performance is the most highly disclosed performance compared to social and environmental performance. This is due to the fact that Indonesia is a developing country that still needs to focus on economic performance to improve the national economic structure and this is quite different from most developed countries that already have economic resilience, so they can focus on improving their social and environmental performance.[26] Meanwhile, in the TBL construct, there are several negative results because during 2019-2021 Indonesia was facing the Covid-19 pandemic. Therefore, the ROA for some firms is negative because the net income after tax is negative or experiencing a loss.

Table 2. Descriptive Statistics (N = 19)

Variable		M	Min	Max	SD
Sustainability Report Disclosure					
Economic Performance (EC)	Y_1	0.34	0.11	1.00	0.20
Environmental Performance (EN)	Y_2	0.24	0.03	0.58	0.15
Social Performance (SC)	Y_3	0.22	0.05	0.59	0.11
Triple Bottom Line					
Return on Assets (ROA)	X_1	0.06	-0.25	1.75	0.24
RND intensity (IRND)	X_2	0.58	0.00	1.00	0.49
Environmental Cost (BL)	X_3	0.08	-0.05	0.63	0.15
Remuneration					
Commissioner (KO)	Z_1	21.65	17.91	24.18	1.46
Directors (DI)	Z_2	23.10	20.22	24.90	0.89

Note: M= Mean; SD= Standard Deviation

From the results of model measurements, the researcher eliminated three items that did not meet the statistical requirements of SmartPLS, included ROA, EN, and KO items. The elimination of three items are based on convergent validity (loading factor parameter > 0.4)[27] and discriminant validity (cross loading) measurement and make sure the f-square or effect size f^2 score of TBL is ≥ 15%, see Table 3.

Table 3. Model Measurement Overview

Construct	Item	*Convergent validity* (Outer *Loading*)	Discriminant validity (Cross *Loading*)	Significant Result	F^2
MODEL I					
TBL	ROA	0.230	valid	0.700	0.134
	IRND	0.962	valid	3.703	
	BL	0.449	valid	1.314	
SRD	EC	0.897	valid	20.257	-
	EN	0.703	valid	4.235	
	SC	0.767	valid	5.630	
Remuneration	KO	0.860	valid	9.433	0.289
	DI	0.922	valid	32.673	
Moderating Effect	TBL * Remuneration	-0.031	valid	0.185	0.001
MODEL II					
TBL	IRND	0.897	valid	3.115	0.153
	BL	0.624	valid	2.117	
SRD	EC	0.967	valid	37.679	-
	SC	0.721	valid	4.389	

Remuneration	DI	1.000	valid	0.000	0.3 65
Moderating Effect	TBL * Remuneration	0.074	valid	0.488	0.0 08

Note: Model II is used on this study because the data already fit to PLS requirements

Table 4. Path Coefficient Analysis.

	Original Sample Estimate	*Standard Deviation*	*P-value*	*Conclusion*
TBL -> SRD	.326	.173	.030**	Accepted
Remuneration -> SRD	.493	.084	.000***	Accepted
Moderating Effect -> SRD	.074	.152	.313	Rejected

*Note: ***p < .01; **p < .05*

In table 4 it can be clearly seen the results showing that TBL affects SRD at a significant level of 5% and has a 0.030 p-value score indicating a significant and positive result. That is, concept *Triple Bottom Line* is a variable that can influence sustainability report disclosure, so that H1 is accepted. Although prior studies related to this research is limited, but the research by Khafi [22] is enough to explain that *Triple Bottom Line* had a significant effect on *corporate social responsibility*, which is due to the fact that the implementation of the CSR program will always pay attention to society and environmental conditions in addition to paying attention to profits. This argument is reinforced by a statement that applying the TBL concept can also provide an overview of the appropriate rules and what management and operational activities must be evaluated so that in the future it can improve the classification of goals that are more long-term.[28] This research shows that from 2019 to 2021 the sample companies experienced an increase in sustainability disclosure. This indicates that the level of awareness of companies in Indonesia in carrying out sustainability activities has progressed, see Figure 2.

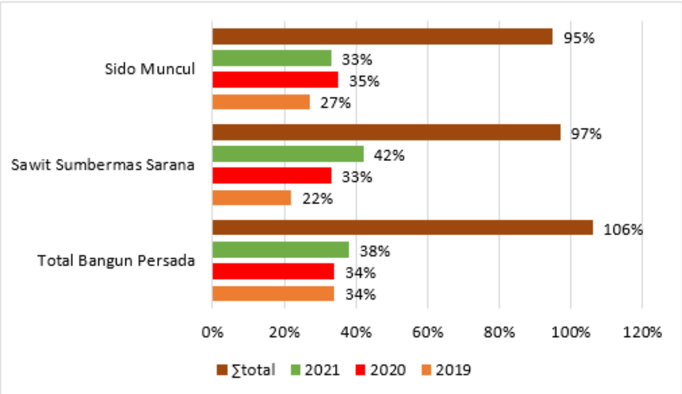

Fig. 2. Sustainability Report Disclosure Progress Contribution

In the results of this study (see, table 4) was found that the interaction of TBL and Remuneration variables shown the moderating effect produces a p-value score of 0.313 which indicates that there is no moderating event between board remuneration on TBL and SRD. These findings explicitly state that the Remuneration construct has no impact on the extent of sustainability report disclosure or board remuneration is not moderating variable, so H2 is rejected. This can happen because board remuneration has a function not as a moderating variable but leads to other functions as a predictor. Compensation research with sustainability reports is still relatively limited, but research from Ridaryanto and Marsudi [29] has provided sufficient evidence to support this research because it found results that the amount of remuneration does not affect quality *sustainability reporting*. This research is also in line with Apriyani and Muharram [30], that executive board compensation has no impact on company performance. The findings in this study reveal that there are companies that do not report incidents of corruption in their sustainability reports. This is shown that the high remuneration provided leads to misappropriation of assets.

5 Conclusion

The findings of the current researchshows that TBL has a positive influence on SRD. However, ROA item does not reflect an economic aspect on this research. Apart from that, board remuneration is unable to moderate the link between TBL and SRD, which indicates that board remuneration is a predictor moderator variable. There are many companies that have started reporting sustainability reports, but many still do not include the number of financial allocations spent on social and environmental activities, research and development, and the amount of board remuneration, so the lack of information becomes a limitation in this study. This is also a reason why companies should report their sustainable activity properly in order to ensure the accuracy of the report. For future research, the sector can be extended based on the current issues, add period, use other items to measure TBL concepts and use specific parameter by GRI in order to measure firm performance accurately.

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