The Effect of Profitability and the Board Directors on the Disclosure of Sustainability Report

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Abstract. The company's business activities cause environmental damage, this shows that the company in addition to paying attention to the operational and financial aspects of the company, the company must also care about the environmental damage losses that must be borne by the community as a result of the company's business activities. Information regarding the impact of the company's economic, social and environmental activities is disclosed through a sustainability report as a voluntary report which is presented separately from the annual report. The purpose of this study was to determine the effect of profitability and the board of directors on the disclosure of the sustainability report. The population of this study is companies listed on the Indonesia Stock Exchange (IDX) which publish annual reports and sustainability reports for the period 2017-2021 except for the financial sector. The analytical tools used in this research are descriptive analysis and inferential analysis. Descriptive statistical analysis is used to provide an overview or description of data seen from the average value (mean), standard deviation, maximum, and minimum. Meanwhile, the inferential analysis in this study uses multiple regression tests. All analyzes in this study were processed using the IBM SPSS 26 program. The results show that profitability and the board of directors influence the disclosure of the sustainability report.

Keywords: Profitability, Board of Directors, Sustainability Report

1 Introduction

Each company is established with the primary purpose of maximizing profit or profit from each of its activities [1][2]. However, in its pursuit of these primary objectives, the company sometimes ignores aspects of the different consequences created by the company's operational activities. The social impact caused by company waste is one of the impacts of the company's actions that companies frequently disregard. For example, consider a company that frequently disregards river water contamination caused by the disposal of company waste whose quality is not assured, resulting in a reduction in the quality of the ecosystem surrounding the river.

According to Milne and Gray (2009) [1], in addition to profit, companies must also pay attention to and be involved in fulfilling community welfare and actively contribute to environmental preservation. This means that the company can continue to generate profits as long as it does not harm the environment and society. The substance of the presence of social responsibility originates to increase the company's sustainability by fostering cooperation among the relevant stakeholders.

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In recent years, some Indonesian companies have begun to strike a balance between profit and environmental betterment. Companies are beginning to engage in environmentally and socially beneficial activities known as the triple bottom line [1][2]. The triple bottom line is made up of three fundamental pillars that are of primary interest to the company: profit, people, and the planet. Profit refers to the company's focus on maximizing profits for shareholders while also considering stakeholders' interests. People relate to the company's efforts to prosper the community around the company's environment. Meanwhile, planet refers to the company's attempts to actively contribute to environmental preservation.

About the triple bottom line concept, the company must do various things to achieve ecologically responsible and sustainable development. One of them is something that the company must communicate to stakeholders, and that is the sustainability report, which is a type of voluntary report that is used as a form of social and environmental responsibility [3]. Sustainability reports are required to ensure that all stakeholders, including the community, are aware of all kinds of business duties to society and the environment Tilt et al. (2021) [4], Michelon et al. (2014) [5], Lodhia et al. (2020) [6], and Schaltegger & Hörisch (2017) [3].

Research on sustainability reports is starting to develop which indicates that the phenomenon of sustainability reports is starting to be carried out by companies. This is an intriguing subject to investigate. Several prior studies investigated the elements that influence corporations' disclosure of sustainability reports. Research conducted by KKlll & Kuzey (2018) [7], Schaltegger & Hörisch (2017) [3], Ong et al. (2016) [8], Rizzi et al. (2018) [9], Luk Fuadah et al. (2014) [10], Michelon et al. (2014) [5], Wahyuningtyas et al. (2022) [11], Madani & Gayatri (2021) [12], Lodhia et al. (2020) [6], examined the effect of financial performance variables on sustainability reports. Meanwhile, other research conducted by Schaltegger et al. (2017) [13], Stocker et al. (2020) [14], Rodriguez-Fernandez (2016) [15], Al-Shaer (2014) [16], Hussain et al. (2018) [2], Ong & Djajadikerta (2020) [17], Al-Shaer & Zaman (2019) [18], Amidjaya & Widagdo (2020) [19], Yunan et al. (2021) [20], Jamil et al. (2021) [21], Safari (2017) [22] examined the influence of corporate governance on the sustainability report.

The effect of profitability on the sustainability report is re-examined in this study. The profitability variable was chosen as a variable that is expected to be capable of affecting the sustainability report because profitability is one of the primary goals of establishing a company. Furthermore, profitability is one of the most straightforward indications of a company's financial performance. The board of directors' variable was chosen as a predictor variable that is thought to affect the sustainability report because the composition of the board of directors is one of the aspects of corporate governance whose role is to oversee the company's operations and activities.

2 Literature Review and Hypothesis Development

2.1 Legitimacy Theory

Legitimacy theory is founded on the idea that companies operate in a community environment through a social contract [23][24]. Based on this concept, the company will then agree to carry out various types of community-desired actions in exchange for receiving the company's goals, corporate survival, and other awards [25][26]. The suitability of social value that the corporation wishes to produce can be achieved by improving community communication.

This communication can be accomplished by the voluntary disclosure of additional information that is more supportive. The company's attempts to communicate with the community include the submission of a sustainability report. Companies can use sustainability reports to achieve legitimacy [27][28]. As a result, legitimacy is a benefit or a potential resource for the company's survival (going concern).

2.2 Stakeholder Theory

Stakeholder theory is concerned with how companies manage their [29]. The method is determined by the company's strategy, which can be active or passive [30][31][32]. An active strategy not only identifies stakeholders but also determines which stakeholders have the most influence on the company's allocation of economic resources. Paying close attention to stakeholders will result in high levels of social information disclosure and good corporate social performance [33]. Companies that do use passive methods, on the other hand, do not regularly monitor stakeholder activity and do not pursue optimal strategies to attract stakeholder attention. Thus, there is a low level of social information disclosure and poor corporate social performance.

There are two types of information disclosure: mandatory and voluntary. The sharing of sustainability reports is one type of voluntary disclosure that is fast developing today. Companies can give more comprehensive and complete information about their activities and their effects on the socioeconomic circumstances of society and the environment by disclosing sustainability reports (social and environmental disclosures) [34][35].

2.3 Corporate Governance

Corporate governance is a system of regulations that control the relationship between shareholders, managers, creditors, the government, employees, and other internal and external stakeholders based on their respective rights and responsibilities [18]. According to Amidjaya and Widagdo (2020) [19], good corporate governance is a set of relationships between company management, the board of directors, shareholders, and other stakeholders.

Furthermore, Jamil et al (2021) [21] define corporate governance as an administrative structure that governs relationships between firm management, commissioners, directors, shareholders, and other interest groups (stakeholders). The primary goal of corporate governance is to establish a system of control and balance to prevent resource mismanagement while yet encouraging company growth [36][22][16].

2.4 Sustainability Report

The sustainability report is the practice of measuring, disclosing, and holding organizations accountable for their performance in achieving sustainable development goals to both internal and external stakeholders [37]. Sustainability Report is a broad phrase that refers to reports on economic, environmental, and social aspects, such as triple bottom line, corporate responsibility reports, and so on.

Companies that compile sustainability reporting make it easy for information users to determine whether the company is transparent in developing policies aimed at the environment, management, employees, society, and nature. The Global Reporting Initiative has developed a sustainability report guideline that provides guidelines for reporting by taking into account economic, social and environmental aspects [38][19][39][40].

2.5 Profitability

Profitability is a ratio that measures a company's ability to earn profits based on its sales, assets, and equity [41]. Profitability measurement is a process that allows management to be more open and flexible in disclosing corporate social responsibility to shareholders [11].

Companies with strong financial performance capabilities will be more confident in informing their stakeholders, notably investors and creditors, because the company can demonstrate that it can achieve their expectations. As a result, organizations with high levels of profitability are more likely to disclose via sustainability reports [20].

2.6 Board of Directors

The board of directors is someone who is appointed to lead the company; this might be the firm's owner or a professional individual nominated by the business owner. The board of directors is a component of a company's control structure, with two functions: monitoring and decision making [17]. The Board of Directors, as a corporate organ, is fully responsible for the company's management. The greater the frequency of meetings between board members, the more frequent communication and cooperation between members, making it easier to achieve strong corporate governance [17].

2.7 The Effect of Profitability on Sustainability Report

Profitability refers to a company's ability to create profits to raise the value of its shareholders. Lodhia et al (2020) [6], Wahyuningtyas et al (2022) [11], and Madani and Gayatri (2021) [12] discovered that the higher the level of corporate social responsibility disclosure, the higher the level of profitability. This implies that corporations with large profits may afford to cover the costs of social responsibility disclosure. The higher level of profitability represents the entity's potential to create higher profits, allowing it to raise its social responsibility and disclose it in broader financial statements. Based on this logic, the hypotheses proposed in this study are as follows:

H1: Profitability affects the sustainability report

2.8 The Effect of the Board of Directors on the Sustainability Report

The effectiveness of oversight in corporate activities can be influenced by how the board of directors is formed and organized. Good board performance will enable the organization to achieve good corporate governance. In its application, good corporate governance is highly dependent on the board of directors functions as the party in charge and responsible for administering the organization. The members of the board of directors meet, the more frequently the members of the board of directors coordinate, making it easier to achieve solid corporate governance [20][21][17]. In terms of the information disclosed by the company, it includes not only financial information but also information regarding social and environmental performance in a report known as a sustainability report. If the firm's corporate governance has been operating smoothly, as seen by frequent communication at board meetings, the company is more likely to reveal its performance. The second hypothesis offered in this study is based on this logical background:

H2: The board of directors affects the sustainability report

3 Methods

This study combined quantitative and descriptive research methods. Secondary data was employed, specifically the annual reports and sustainability reports of non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Annual reports and sustainability reports were required for this study. The information was acquired from the Indonesia Stock Exchange website, http://www.idx.co.id, as well as the official websites of each company. The data in this study were analyzed using IBM SPSS 26 software as an analytical tool.

This study's population consisted of all non-financial companies registered on the Indonesia Stock Exchange (IDX) between 2017 and 2021. The observation period was extended to five years to collect sufficient data for this study. Purposive sampling was used to obtain a representative sample that meets the specified criteria. Based on the results of the research population selection, 26 samples of non-financial companies that met the requirements were acquired, so that with a five-year observation year, the unit of analysis in this study amounted to 130 units of analysis.

In this study, descriptive and inferential analysis was utilized as analytical tools. Descriptive statistical analysis was used to provide an overview or description of data seen from the average value (mean), standard deviation, maximum, and minimum [42][43]. The inferential analysis in this study consisted of classical assumption tests and hypothesis testing. All analyzes in this study were processed using the IBM SPSS 26 program.

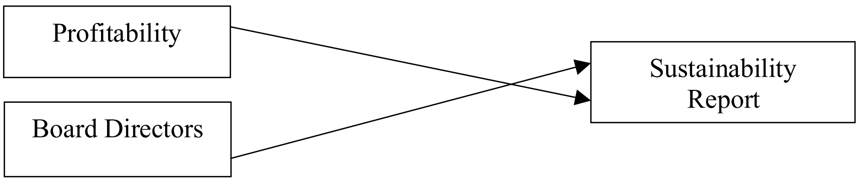

Fig. 1. Research Model

4 Results and Discussion

4.1 Descriptive Statistics

Table 1 describes the minimum, maximum, mean, and standard deviation values for each research variable. These figures provide information about descriptive statistics on the variables of the Sustainability Report, profitability, and the board of directors. Table 1 shows that the study's total number of units of analysis (N) is 130, drawn from 26 sample organizations throughout five years, from 2017 to 2021.

Table 1. Descriptive Statistical Analysis

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Y	130	.0000	.9481	.252669	.2460407
X1	130	-.1538	.2119	.036857	.0630301
X2	130	12	84	40.33	15.894
Valid N (*listwise*)	130				

4.2 Classic Assumption Test

4.2.1 Data Normality Test

The data normality test was performed to determine whether or not the data utilized in the study were normally distributed. A statistical study can be used to determine the normality of the data. The Kolmogorov-Smirnov (K-S) non-parametric statistical test can be used for statistical analysis. Table 2 depicts the results of the non-parametric Kolmogorov-Smirnov (K-S) test, which yields a statistical test value of 0.109 and a significance value of 0.158. The significance value is greater than the error tolerance value of 0.05 or 5% (0.158 > 0.05), implying that the residual data is normally distributed.

Table 2. Normality Test

		Unstandardized Residual
N		130
Normal Parameters[a,b]	*Mean*	.0000000
	Std. Deviation	.23534936
Most Extreme Differences	*Absolute*	.109
	Positive	.109
	Negative	-.084
Test Statistic		.109
Asymp. Sig. (2-tailed)		.158[c]

4.2.2 Multicollinearity Test

The multicollinearity test was carried out to identify whether in the regression model there was a significant correlation or not [43]. The regression model can be said to be good if there is no correlation between the independent variables. The analysis was carried out by observing the VIF (Variance Inflation Factor) value and the tolerance value. The regression model is said to be free from multicollinearity symptoms if it has a tolerance value of more than 0.1 and a VIF value of less than 10 [42]. Table 3. shows that there are no variables that have a tolerance value of more than 0.1 and the resulting VIF value also meets the assumption of multicollinearity, which has a value of less than 10, so it can be concluded that there is no multicollinearity problem in the regression model used in this study.

Table 3. Multicollinearity Test

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	*T*	*Sig.*	*Collinearity Statistics*	
	B	*Std. Error*	Beta			*Tolerance*	VIF
(Constant)	-.458	.729		-.628	.533		
Tr_X1	.176	.393	.066	.447	.657	.648	1.544
Tr_X2	-.047	.029	-.207	-1.635	.109	.885	1.129

4.2.3 Autocorrelation Test

The autocorrelation test was used to determine whether there is a correlation in the linear regression model between the confounding error in period t and the confounding error in period t-1 (prior) [43]. If there is no autocorrelation, the regression model is said to be good. According to Table 4, the data after the Run test reveal a test value of -0.01860 with a significance value of 0.894 where the significance value is greater than 0.05 or 5 percent (0.894 > 0.05), implying that the residual data is random or that there is no autocorrelation between the residuals.

Table 4. Autocorrelation Test

	Unstandardized Residual
Test Value	-.01860
Cases < Test Value	27
Cases >= Test Value	28
Total Cases	130
Number of Runs	28
Z	-.134
Asymp. Sig. (2-tailed)	.894

4.2.4 Heteroscedasticity Test

The heteroscedasticity test was performed to determine whether there was an inequality in variance between the residuals of one observation and the residuals of another observation in the regression model. If the variance of the residual from one observation to the next differs, the data is said to be heteroscedastic, and if it remains constant, it is said to be homoscedastic. A good regression model is a homoscedasticity or if there is no heteroscedasticity [43]. According to Table 5, the results of the Glejser statistical test demonstrate that the significance value achieved is greater than the 0.05 or 5% confidence level, implying that the regression model utilized does not indicate heteroscedasticity.

Table 5. Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.095	.324		.294	.770
Tr_X1	.254	.174	.246	1.455	.152
Tr_X2	-.003	.013	-.031	-.214	.832

4.2.5 Hypothesis Test

Table 6. Hypothesis Test

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
	B	Std. Error	Beta		
(*Constant*)	-.001	.503		-.001	.999
Tr_X1	3.233	3.552	1.221	.910	.036
Tr_X2	.824	.221	3.639	3.727	.001

Table 6 shows the test of the effect of the profitability variable on the sustainability report showing the regression coefficient value of 0.910 with a significance value of 0.036 which means the value is smaller than the error tolerance ($\alpha = 0.05$). Based on these findings, it is clear that the profitability variable has a significant effect on the sustainability report. The test yields a positive regression coefficient value, indicating a positive influence between profitability and the sustainability report. As a result, the first hypothesis (H1) in this study is accepted.

Profitability has an impact on sustainability report disclosure because companies with high profits may seek legitimacy from stakeholders through sustainability reports. The company was founded to generate a satisfactory return on investment and to survive in strong financial conditions. According to Handayani et al. (2017) [41], company profitability is an indicator of good company management, therefore management will tend to share more information when company profitability rises.

The greater the level of company profitability, the larger the level of company information disclosure, including the disclosure of the sustainability report. The disclosure of this sustainability report is carried out in the context of accountability to stakeholders to maintain their support while also meeting their information demands. Furthermore, the disclosure of sustainability reports can be utilized as a means of communication with stakeholders who wish to acquire confidence in how the company generates profits. This information is especially important for stakeholders, in addition to investors and creditors, who are usually motivated by economic or financial interests. Profitability is an important factor that investors and company owners can use to evaluate management performance in managing a company.

Table 6 the test of the effect of the board of directors variable on the sustainability report showing the regression coefficient value of 3.727 with a significance value of .001 which means the value is smaller than the error tolerance ($\alpha = 0.05$). Based on these findings, it is clear that the variable of the board of directors has a substantial impact on the sustainability report. The test yields a positive regression coefficient value, indicating that the board of directors has a positive influence on the sustainability report. In other words, the second hypothesis in this study (H2) is accepted

According to the board of directors' social responsibility task, the board of directors must have a clear documented plan and focus on implementing corporate social responsibility [21]. A sustainability report can be used to publicize the implementation of a clear written plan for corporate responsibility. As a result, the social responsibility mentioned in the sustainability report confirms that the company is concerned about its stakeholders.

According to Stocker et al (2020) [14], the good performance of the board of directors will be able to realize good corporate governance for the company. Corporate governance execution is primarily dependent on the functions of the board of directors, who are trusted as the company's management. The competence of the board of directors to make decisions is critical for the organization. As a result, the frequency with which members of the board of directors meet leads to more frequent communication and coordination among members, facilitating the implementation of corporate governance.

5 Conclusion

The purpose of this study is to examine the effect of profitability and the board of directors on the disclosure of the sustainability report. Following the completion of various tests, conclusions can be taken based on the test results and discussion, namely that profitability and the board of directors have a significant effect on the disclosure of the sustainability report. This suggests that the profitability variable is something that needs to be considered by the company. Furthermore, the board of directors plays a vital role in the company's management.

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APPENDIX. Variable Measurement

Variable and Concept	*Measurement*
Sustainability Report (Y) The Practice of Accountability for Organizational Performance in Achieving Sustainability Development Goals	SRDI = $\frac{\text{The Number of Items Disclosed by The Company}}{\text{Expected Item Quantity}}$
Profitability Company's Ability to Generate Profit	ROA = $\frac{\text{Net Profit After T}}{\text{Total Assets}}$
Board of Directors	D =Frequency of Meeting Members of The Board of Directors Per Year