Corporate Sustainability Performance during Pandemic: The Role of Leverage and Profitability

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ABSTRACT

Corporate Sustainability Performance (CSP) is essential for creating the corporate value linked to industry competitive advantage because it has disclosure standards that reflect all dimensions of corporate performance. This study explores the role of leverage and profitability as determinants of CSP, measured by three dimensions of the triple bottom line finance, environmental, and social. Global Reporting Index (GRI G4) is used to measure the CSP, then leverage is calculated by Debt Equity Ratio (DER), and profitability is calculated using Net Profit Margin (NPM). The sample used data from 22 State Owned Enterprise (SOEs) listed on the Indonesian Exchange during 2020-2021. The data were analyzed descriptively, and the panel data regression was used for testing the hypotheses with the EViews program. The results show that leverage hurts CSP but not profitability. It implies that the corporate could control the leverage for getting a sustainable business.

Keywords: Corporate sustainability performance, triple bottom line, global reporting index, leverage, state owned enterprise

1. INTRODUCTION

In recent years, non-financial performance and corporate sustainability have become increasingly important and have attracted significant attention among companies. Corporate Sustainability performance (CSP) identifies the degree to which a company simultaneously integrates economic growth, environmental protection, social efficiency, and governance elements into its operations and, ultimately, the influence these elements exert on the company and society (Artiach et al., 2010 on Ly Ho). CSP has the potential to create value for companies by improving financial performance.

During the Covid-19 era, Indonesia not only poses a threat to health but also to economic growth. One of the impacts is the slowdown in the economic system. It affects the company's performance in making sustainability reports. In addition, many non-financial sub-sector companies experienced a decline, as shown in the data below:

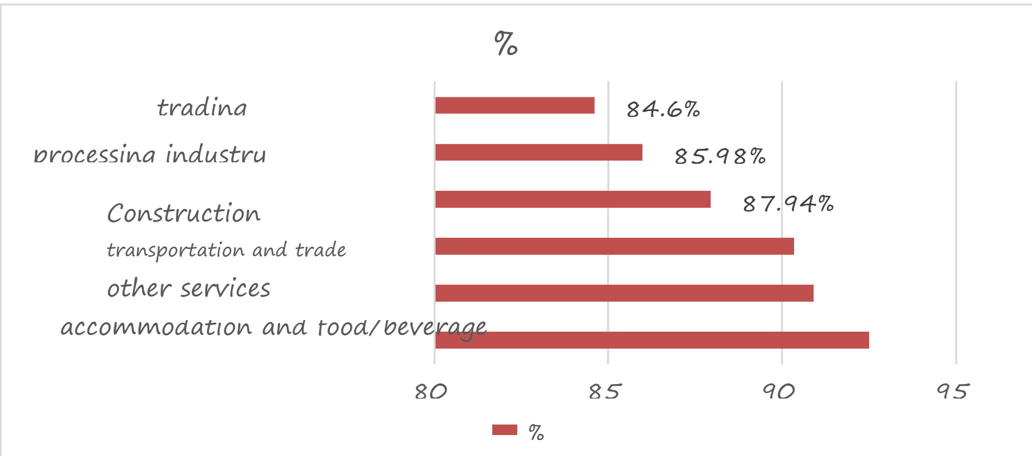

Figure 1: The Business Sector Most Affected during the Corona Pandemic
Source: Central Bureau of Statistics (BPS), 2021

From the survey results by the Central Statistics Agency (BPS), it was noted that 82.85% of companies were affected by the Covid-19 coronavirus pandemic, and based on the sector, accommodation, and food/beverage businesses experienced the most decline in income, namely 92.48%. Other services became the sector that experienced the second most significant decline in revenue, namely 90.90%. The transportation, warehousing, construction, processing, and trade sectors followed this position.

Corporate Sustainability Performance (CSP)is a performance that is expected to continue in the long term by carrying out business activities that maintain economic, social, and environmental welfare. CSP is necessary to describe the prospects for a company, such as in Indonesia, where the SRI-KEHATI index describes sustainability and responsible because the role of SRI-KEHATI is often used as a benchmark for investors and investment managers in determining investment steps. Through SRI-KEHATI, investors or investment managers will evaluate public companies. Companies that perform well in sustainable financial, social, and environmental management deserve investment. The development of SRI-KEHATI before the pandemic has increased from year to year, and during the pandemic, 2019 experienced a very significant decrease until 2020. SRI-KEHATI is showing better performance than the previous year, with 224.19%. It can be seen from the figure below.

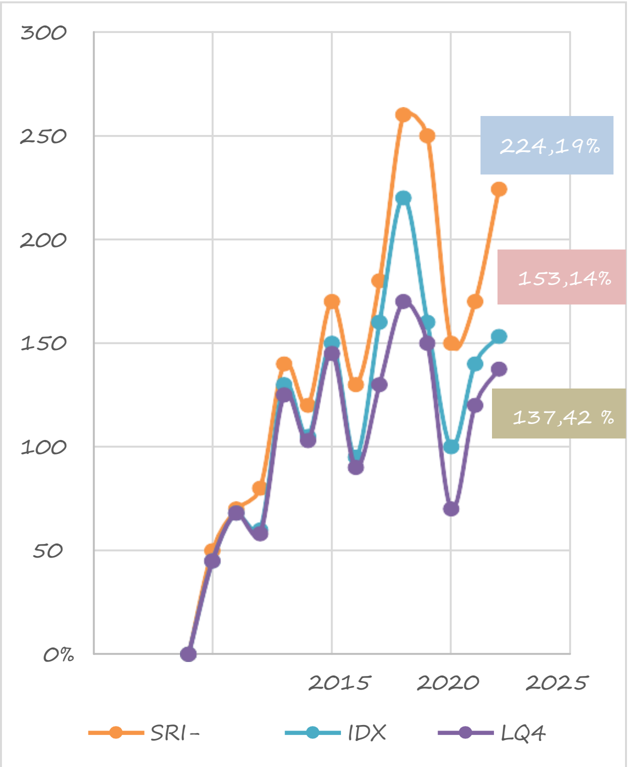

Figure 2: SRI-KEHATI, IDX 30, and LQ45 Index performance
Source: kehati.or.id, 2022

Therefore, it is necessary to have a Sustainability performance that contains information on financial performance and non-financial information consisting of social and environmental activities that emphasize disclosure principles and standards that can reflect the level of company activity to enable the company to grow sustainably (Soeslistyoningrum, 2011).

Sustainability performance describes the company's performance, not only in terms of profit but also socially; the company's performance ratios illustrate that a good company is also good, such as the level of leverage and profitability. The level of corporate leverage has an impact on CSP because leverage can describe a company's financial risk and can also describe a company's dependence on debt. Leverage is a company's ability to meet its short- and long-term financial obligations if liquidated (Hadiningsih, 2007). The public data shows solvency in several state-owned companies that experienced a decline during the pandemic

Apart from leverage, companies need to pay attention to achieving CSP profitability. Profitability is management performance in managing the company in maintaining the long-term viability of the company. The higher the level of profitability, the more it shows the potential for increasing profits or profits earned by the company. The prospect of companies with high profitability is a unique attraction so that investors and creditors respond positively, and the company's value will increase. The development of net profit at SOE, according to the business sector, decreased in 2020. It was recorded that SOE's net profit fell 73.60% from IDR 161.29 trillion in 2019 to IDR 42.58 trillion in 2020. It harms the company's CSP.

For research related to sustainability that has been carried out, the results of a study conducted by Rotua, Zuhrotun, and Rusherlistyani (2019) namely that the level of leverage does not affect the disclosure of sustainability reports. It shows that a company's power is relatively small, influencing the exposure of sustainability reports. In contrast, the results of Maulida's research (2013) from data analysis showed a significant adverse effect between leverage on disclosure of sustainability performance.

The research results of Katoppo (2022) show that profitability has a negative effect and has no significant relationship to corporate sustainability performance. High profitability has not been able to influence the decision to disclose sustainability, which affects CSP in the company. While the results of research conducted by Suryono and Prastiwi (2011) state that profitability, company size, board of directors, and audit committee affect the sustainability report. Liquidity, leverage, activity, and governance committee have no impact on the sustainability report. This research tests the effect of leverage and profitability on the corporate sustainability performance of SOEs on the Indonesia Stock Exchange for the 2020-2021 period. The findings of this study can be used as input and consideration in making the right investment decisions and as a form of corporate responsibility to the surrounding community and environment.

2. LITERATURE REVIEW

According to Elkington and Rowlands (1999), a sustainability report is a report that contains information on financial and non-financial performance regarding social and environmental activities that enable companies to grow sustainably. Meanwhile, according to GRI 101 (2016), sustainability reporting is reporting to internal and external stakeholders regarding their economic, environmental, and social impacts, including the contribution of company information to sustainable development goals. The Global Reporting Initiative (GRI) is one of the institutions that seriously deals with issues related to sustainability (Yuliana & Sukoharsono, 2008). GRI was established because of the increasing urgency of transparency regarding the impact of company business activities, both economic, environmental, and social, so that guidelines or frameworks are needed to compile sustainability reports for companies of various sizes and business sectors worldwide (Notiger & Gai, 2007). Sustainability Reports prepared under the GRI Reporting Framework disclose the outputs and results within a specific reporting period in the context of its organizational commitment, strategy, and management approach (GRI, 2006).

The sustainability of corporate performance (Corporate Sustainability Performance-CSP) is reflected in the activities of all dimensions and for all drivers of corporate sustainability (Schaltegger & Wagner, 2006 in Sebhatu, 2009). Sustainability performance reflects one final target of the company's movement in the unity of corporate responsibility. Sustainability performance indicators have a role in helping companies and their stakeholders, especially financial institutions, to assess/assess how their production activities contribute without reducing/disrupting sustainable development goals (Warhurst, 2002). Sustainability performance indicators are often divided into three dimensions, environmental, social, and economic.

One of the determinants of the sustainability of the company's performance is the company's funding decision, which is reflected in the level of leverage, namely the extent to which the company's assets are financed with debt. That is, how much debt is borne by the company compared to its assets are. In a broad sense, the solvency ratio measures a company's ability to pay all short-term and long-term obligations if dissolved (Kasmir, 2013). Leverage is a tool used to measure how much the company depends on creditors in financing the company's assets. Companies with a high level of leverage rely primarily on outside loans to provide the cost of their assets. Meanwhile, companies with lower separate toys to be worn on the head are supplied with capital. The company's leverage level thus reflects the company's financial risk. (Jensen & Meckling in Trinandi, 1976). Leverage factors include size, source of income, collateral level, debt cost, growth opportunities, reputation, and liquidity.

The higher the leverage, the lower the incentive to engage in more sustainable practices, as companies' risks will increase, and their market image will decrease through reduced reputation and visibility. As such, regulators should be aware of a company's current economic and financial situation before issuing new mandatory regulations regarding environmental and social practices, as these negatively affect CSP (Mara, 2020).

H1 = the level of leverage has a negative effect on corporate sustainability performance.

In addition, the sustainability of the company's performance is also determined by the level of profitability, which shows the value of the company's ability to make a profit. This profitability provides an overview of how effectively the company operates to provide gains for the company. Profitability can provide valuable clues in assessing the effectiveness of a company's operations so that profitability ratios will show the combined effects of liquidity, asset management, and debt on operating results. Profitability will show the balance of income and the company's ability to generate profits at various levels of operation. This ratio will reflect the effectiveness and success of management (Kasmir, 2012). Profitability ratios can be used by comparing the various components in the financial statements, especially the balance sheet financial statements and income statements.

High profitability allows the company to meet the expectations of financial stakeholders. Still, it can also maintain the ability to meet the demands of social stakeholders through investment spending on social and environmental performance as legitimacy is given to the company's ongoing activities. Conversely, when profitability is low, management will be pressured to reduce costs and maximize economic benefits to financial stakeholders. In addition, companies with better economic performance can invest in new capital, which leads to better Corporate Sustainability Performance even when this is not the company's primary goal (Artiach, 2010).

H2 = the level of profitability that affects corporate sustainability performance.

3. METHODOLOGY

The analysis unit in this study is state-owned companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2021 period. The sample of study are 22 unit of SOEs was selected through selection criteria, covering several sectors, including finance, energy, transportation & logistics, health, property & real estate, and infrastructure. Leverage value and profitability using financial ratios from the company's financial statements. Leverage uses the DER ratio, while profitability uses the ROE ratio. CSP uses several measurement indicators, namely economic, social, and environmental.

4. EMPIRICAL RESULTS

Descriptive Analysis of Leverage, Profitability, and CSP

The value of leverage fluctuates every year in each of the sample company sectors, which has decreased except for the increased property and real estate sectors. The highest of its value is Waskita Karya Persero Tbk in 575.87, and the lowest leverage value is -435.52 for the GIAA company. Companies with a value above the total average, namely 16 companies and six companies, have a leverage value below the average.

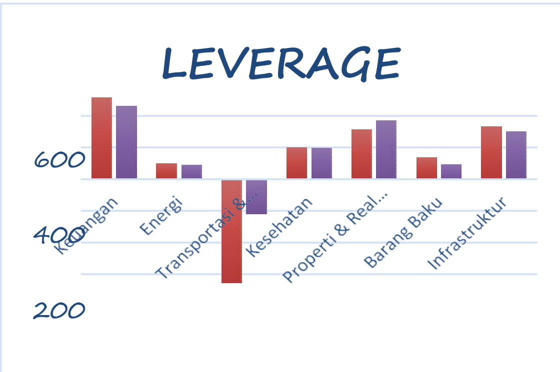

Figure 4: Leverage Value of Indonesian SOEs in 2020-2021
Source : researcher data, 2022

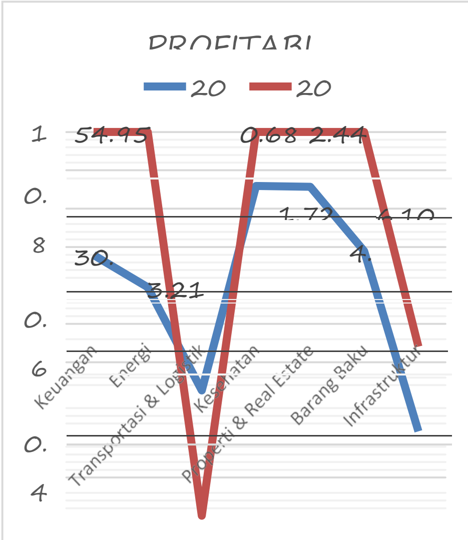

Figure 5: Profitability value of Indonesian SOEs in 2020-2021
Source: researcher data 2022

The average profitability value in the data above during 2020-2021 is the highest for Telkom Indonesia (Persero) Tbk. (TLKM) with a value of 22,685 and the lowest leverage value in Garuda Indonesia (Persero) Tbk. (GIAA) of -239,115.the profitability value fluctuates yearly in each sample company experiencing ups and downs from 2020 to 2021. The sector that has experienced a very high decline is the transportation and logistics sector.

Furthermore, the analysis data show that the average value of Corporate Sustainability Performance (CSP) in the data above during 2020-2021 was the highest for Garuda Indonesia (Persero) Tbk companies. (GIAA) of 5.86. The lowest CSP value is at the BRIS company -1.425, with the sector experiencing a very high decline, namely the transportation and logistics sector.

Regression Results

The regression results show that partially, the leverage variable which measured by Debt Equity Ratio (DER) had negatively affects Corporate Sustainability Performance (CSP) in SOEs and it means the higher the debt a company owns, the more negatively it affects its performance. This finding is in line with Maulida's research (2013) that leverage significantly adversely affects the disclosure of sustainability performance. Meanwhile, Profitability that proxied by Net Profit Margin (NPM) has no significant effect on Corporate Sustainability Performance (CSP) and it aligns with research by Salina (2017) and A Trinanda (2018) that profitability does not affect CSP that means a rise or fall of profitability do not affect its CSP.

5. CONCLUSION

The average leverage value for state-owned companies (SOE) listed on IDX for 2020-2021 has decreased with the fluctuative average profitability. The multiple linear regression test results show leverage has a negative effect, while profitability has no significant impact on Corporate Sustainability Performance. This research is limited to the 2020-2021 pandemic, and CSP measurements using GRI G4 in the financial indicator section only have two testing criteria. For further investigation, it is suggested to further develop the indicators of sustainability performance in this study to see the relationship between leverage and profitability with CSP.

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