CHAPTER I
INTRODUCTION

1.1 Background Research

The financial report is a record that contains financial information of a company that reflects the company's performance. It is imperative for a company to report company performance to company stakeholders. Disclosure of financial statements is important for a company, because the performance of a company is good or bad seen from the report. Now the company is no longer based on the concept of the Single Bottom Line, but has turned to the concept introduced by John Elkington (1998), namely Tripple Bottom Line which focuses on 3P, namely Profit, People, and Planet. Disclosure of reports based on these three aspects is known as disclosure of sustainability reports.

Sustainability report is the practice of measurement, disclosure, and accountability efforts of organizational performance in achieving sustainable development goals for stakeholders both internal and external parties (GRI, 2013). Sustainability report is very necessary, so, that stakeholders, including the community, know all forms of corporate responsibility to the community and the environment. Sustainability report becomes a necessity for progressive companies to inform about their economic, social and environmental performance as well as company stakeholders. The purpose of making sustainability report is to communicate the commitment, economic, environmental and soci al performance of the company to stakeholders and the wider community transparently (GRI, 2013).

Sustainability Reporting disclosure in Indonesia is still voluntary, so, thats not all companies are willing to publish sustainability reports independently, and its only 8.63% of companies that have been listed on the Indonesia Stock Exchange (IDX) have published sustainability reports. Based on data sources published in 2017 by the Financial Services Authority (OJK) on its website (www.ojk.go.id), only 49 companies which listed on the Indonesia Stock Exchange (IDX) issue sustainability reports until 2017.

They are listed in Table 1.1. This would indicate that the company still does not fully understand the benefits of the issuance of sustainability report, which is a form of report on the company's accountability for the company's economic, environmental and social conditions. Companies that combine the Annual Report with Sustainability Report are PT. Elnusa Tbk and PT. Timah.

Table 1.1 : Number of Issuers by Sector Publishes Sustainability Report

No	Sector	Number of Companies	Sustainability Report Publisher	%
1	Agriculture	19	3	15.79
2	Mining	46	10	21.74
3	Basic and Chemical Industry	67	4	5.97
4	Various Industry	42	3	7.14
5	Consumer Goods Industry	46	2	4.35
6	Property, Real Estate, and Buildings	66	6	9.09
7	Infrastructure, Utilities, and Transportation	62	7	11.29
8	Trade, Services, and Investment	134	0	0
9	Finance	86	14	16.28
TOTAL		568	49	8.63

Source: www.ojk.go.id/sustainable-finance/id

Research on sustainability reports began to develop which indicated that the phenomenon of sustainability report reporting began to be carried out by many companies. The following are some of the problems from the economic sector, namely PT Bayan Resources Tbk which uses the Kedang River as a coal pavement line, causing the income of the surrounding community in the form of fish from rivers to be reduced due to many fish populations in the river (www.jatam.org).

Cases of environmental sector, namely mining sector company PT Adaro Energy Tbk on October 2009, namely th e occurrence of river pollution in Balangan Regency which caused the death of fish which allegedly lost billions of rupiah (www.tekno.kompas.com)., and from a social sector, the emergence of a conflict between PT Freeport Indonesia and the Papuan people, where the company is considered not to pay attention to the welfare of the Papuan people as their land is continually crushed and violates the customary rights of the Papuan people, especially Amongme and Kamoro tribes who have customary rights land used by the company (www.merdeka.com).

In Indonesia, CSR is regulated in Law no. 40 of 2007 concerning Limited Liability Companies in chapter V, article 74. Article 74 no. 1 stated that the company that runs its business activities in the field of and / or related to natural resources must carry out social and environmental responsibilities. In 2000, the GRI (Global Reporting Initiative) issued a structure on corporate sustainability reporting that included CSR by using the sustainability report which was then used by many large companies throughout the country.

Regarding sustainability report disclosure, the company considers several things, namely profitability, company size, and leverage. The researcher takes these three variables as independent variables that have an influence on the dependent variable, namely the sustainability report.

First, profitability which shows the company's ability to earn profits in relation to sales, total assets (ROA) or with own capital (ROE) (Kasmir, 2014: 114) Nasir et al. (2014), revealed that profitability has a positive result on disclosure of sustainability report. The higher the level of profitability, the higher the company's initiative in disclosing sustainability reports that reflect the company's responsibility in using existing resources in order to obtain high operating profit. The profitability used in this study is return on assets (ROA).

Second, the size of the company which is the level of measurement of consideration for an investor. This is because the greater the volume of company activity, the more attention is gained so that the company must attach its financial statements transparently and the sustainability report as the responsibility of using the company's budget to generate profits, pay attention to employee welfare, and care for the environment affected by the company's operations. The larger the size of the company, the more it is required to disclose its responsibility to the economy, environment and social aspects in the form of sustainability report (Wulandari, 2017).

Third, leverage is a tool used to measure how much a company has dependence on creditors in financing company assets. Companies that have a high level of leverage mean that they have the most dependence on outside loans in providing their asset costs. Whereas companies that have a lower level of leverage are less likely to finance their assets with their own capital.

The level of company leverage, thus reflecting the company's financial risk. Nasir (2014) find results that leverage has an influence on disclosure of sustainability report. Because the level of leverage is only needed by investors to measure the debt repayment capability of the company and the repayment does not depend on disclosure of sustainability report, but different with Wulandari (2017) that leverage has no effect on sustainability disclosure.

Leverage used in this study is a debt to equity ratio (DER). Debt to equity ratio compares total debt with total capital owned by the company. For creditors, the greater the ratio, the more unprofitable because the greater the risk borne by credit failures that may occur in the company (Kasmir, 2014: 158). This shows that companies can reduce the burden of increasing cash flow for repayment of debts held by the company. These expenses include the burden of corporate responsibility on the economic, environmental and social companies.

(Nasir et al, 2014) revealed that profitability, leverage, and governance have a positive influence, which means that the three variables influence disclosure of sustainability report. This research was supported by Astuti (2015) which is found the results that profitability and leverage have a positive effect on disclosure of sustainability report, but company size have a negative effect on disclosure of sustainability report, and Nadyawati (2018) who suggested the results that leverage and profitability have a positive influence on disclosure of sustainability report. This means that the higher the level of profitability, the greater the responsibility of the company to show the process of achieving high profits from existing asset use, but different with Savina et al. (2018) revealed that leverage and company size have a positive influence while profitability has a negative influence on disclosure of sustainability reports. This means that the influence of disclosure of sustainability report is the size of the company and leverage not profitability.

Wulandari (2017) revealed that company size has a positive effect while profitability and leverage have a negative influence on disclosure of sustainability report. This shows that the larger the size of the company, the more detailed and extensive sustainability report disclosure must be. While profitability and leverage have no effect at all on disclosure of sustainability report. Fahriza (2014) states that leverage has a positive influence on sustainability report disclosures while profitability and company size have a negative influence on disclosure of sustainability report. This study shows that only leverage has an influence on sustainability report disclosure rather than profitability and company size. This study was supported by Aniktia and Khafid (2015) who suggested the results that leverage has a positive influence while profitability has a negative influence on disclosure of sustainability report.

Based on the background described above, this study entitled **"THE EFFECT OF PROFITABILITY, COMPANY SIZE, AND LEVERAGE ON DISCLOSURE OF SUSTAINABILITY REPORT IN MINING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE FOR PERIOD 2013-2017"**

1.2 Identification and Restriction Problem

1.2.1 Identification Problem

Based on the background that has been described, there are 3 problems can be identified as follows:

1. There is a conflict of interest between the company and the community relating to the impact of the activities of the company both from economic, environmental and social sector problems.
2. Sustainability report is still voluntary so that many companies do not disclose it independently (separate from the annual report) so it is still combined with the annual report.
3. There is a mining company that is not transparent inside publish information held including disclosure of sustainability report.

1.2.2 Restriction Problem

Based on the background and identification of the problems described, this study is limited to the :

1. The companies studied are mining companies consistently listed on the Indonesia Stock Exchange in 2013-2017.
2. This study uses the company annual report which concurrently with sustainability report and issuing sustainability report separately during 2013-2017.

3. This study only uses three independent variables, namely return on assets, size, and debt to equity ratio and one dependent variable namely sustainability report.
4. This study uses the GRI G4 specific indicator as an index of the weight of the annual report concurrent with the sustainability report and separate sustainability report.

1.3 Formulation Problem

Based on the background above, the formulations of the problems in this study are:

1. Is there a partial effect of Profitability on the Sustainability Report on mining companies listed on the IDX?
2. Is there a partial influence of Company Size on the Sustainability Report on mining companies listed on the IDX?
3. Is there a partial effect of Leverage on the Sustainability Report on mining companies listed on the IDX?
4. Is there a simultaneous influence of profitability, company size and leverage on the Sustainability Report on mining companies listed on the IDX?

1.4 Reserach Objectives

The research objectives in this study influence the profitability, company size, and leverage on the sustainability report as follows:

1. Determine the simultaneous effect of profitability, company size and leverage on the Sustainability Report at the mining company on the IDX.
2. Knowing the effect of partial profitability on the Sustainability Report on mining companies found on the IDX.
3. Determine the partial effect of company size on the Sustainability Report on mining companies on the IDX.
4. Knowing the influence of partial leverage on the Sustainability Report on mining companies on the IDX.

1.5 Benefits Of Research

This research is expected to be able to provide benefits to various parties, both for parties related to making sustainability reports, as well as those who are users of sustainability reports. These parties include:

1. Academics

For academics, this research can be use as reference materials to find out what are the characteristics of the company variables and corporate governance practices that are able to give influence in sustainability report disclosure in Indonesia, provide information about the importance and benefits that can be generated through disclosure of sustainability report for the company, which is expected to be beneficial in the development of science

2. Companies

For companies, this research can be used as reference materials that are expected to provide knowledge and information for consideration in policy making regarding sustainability report disclosure in order to create value for the company, disclourse through sustainability report disclosure can be a manifestation of the media's accountability and transparency to stakeholders regarding environmental and social issues.

3. Investor

For investors, this research can be as a reference that can provide information and knowledge for making decisions and making choices in investing.

4. Government

For government, this research can be used to be able to consider further in granting permits for mining activities and considering company provisions in carrying out social responsibility.