ANALYSIS OF SUSTAINABILITY REPORT DISCLOSURE TOWARDS FINANCIAL PERFORMANCE WITH EARNING MANAGEMENT AS MODERATING VARIABLE

SKRIPSI

By

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008201400066

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for

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Cikarang Baru – Bekasi

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PANEL OF EXAMINERS APPROVAL SHEET

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I realized that this skripsi is far away from the perfection; hence I would like to apologize for it. Hopefully, this skripsi will be able to add more overview and information regarding with the topic to everyone who would needs it.

Sincerely,

Muhammad Farhan
DECLARATION OF ORIGINALITY

I declare that this skripsi entitled “Analysis of Sustainability Report Disclosure towards Financial Performance with Earning Management as Moderating Variable (Mining and Energy Infrastructure Companies for period 2012-2016)” is originally written by myself based on my own research and has never been used for any other purpose before. I, therefore, request for Oral Defense of the Skripsi.

Cikarang, Indonesia, March 29, 2018

Researcher,

Muhammad Farhan
(008201400066)
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ABSTRACT

The objective of the research is to find out the influence of sustainability report disclosure to corporate financial performance and earning management as moderating variable. The aims of this research are to find empirical proof about the effect sustainability report disclosure towards corporate financial performance and the effect of those relationships with earning management as moderating variable. Sustainability disclosure by GRI-G4 is used as the proxy of sustainability report, ROE is used as the proxy of financial performance and discretionary accruals by The Modified Jones model is used as the proxy of earning management practices.

In this research, the data population taken from mining and energy infrastructure companies that publish sustainability report and listed into Indonesia Stock Exchange, then data is collected by using purposive sampling method. There are 7 companies with total 35 samples starts from 2012 - 2016 used as research data. The analysis methods of this research use simple regression analysis for hypothesis 1 and multiple regression analysis with the Absolute Residual Method for hypothesis 2.

The results of this research show that sustainability report has significant influence on corporate financial performance. The analysis with the moderating variable absolute residual method shows that earning management moderate in relation between sustainability report and corporate financial performance and it shows negative significant influence.

**Keywords**: Sustainability report, earnings management, corporate financial performance.
INTISARI

Penelitian ini mempunyai tujuan untuk menguji dan menemukan bukti empiris tentang pengaruh pengungkapan sustainability report terhadap kinerja keuangan perusahaan dan manajemen laba sebagai variabel pemoderasi. Tujuan penelitian ini adalah untuk menemukan bukti empiris tentang pengaruh pengungkapan sustainability report terhadap kinerja keuangan dan pengaruh diantara keduanya dengan manajemen laba sebagai variabel moderasi.


Hasil dari penelitian ini menunjukkan bahwa pengungkapan sustainability report mempunyai pengaruh signifikan terhadap kinerja keuangan perusahaan. Analisis variabel pemoderasi dengan uji selisih mutlak menunjukkan bahwa manajemen laba dapat memoderasi hubungan antara sustainability report dengan kinerja keuangan perusahaan dan menunjukkan pengaruh yang negatif signifikan.

Kata Kunci: Sustainability report, manajemen laba, kinerja keuangan perusahaan
CHAPTER I
INTRODUCTION

1.1 Research Background

Nowadays, environmental is often a major issue in corporate activity. Exploration, exploitation of natural resources, and industrialization emissions are evidence of the company's low attention to environment impacts. Many companies in Indonesia are competing to advance their business which able to meet the needs of society and also give some advantages to the shareholders (Kiefer et al., 2017).

However, to get big profit, usually common companies have a bad impact on the environment and become a serious problem in recent years. Many companies are exploiting natural resources and human resources to increase corporate profits (Othman & Ameer, 2014). As corporate profit continues to increase, on the other hand, the damage caused by the production process of goods increases, so the taxes and costs for cleanliness, health and environment are also increased. Examples of some companies in Indonesia that have environment pollution and became a headline on national news such as PT. Lapindo Brantas in Sidoarjo, East Java, PT. Newmont Nusa Tenggara in Senuwu Bay, Sumbawa, and PT. Freeport in Irian Jaya.

Moreover, for the company that have go public, maintaining the environment should become a top priority in running the company
(Parkan, 2002). This is encouraged by Law no. 40 Article 74 Year 2007 in which explained about the rules for companies that carry out operational activities that related to natural resources which is obligated to do social responsibility.

Looking at these phenomena, the company needs to maintain its financial performance growth and its effect to the society (Jordão & Almeida, 2017). In this case, it is important for a company to pay attention about the environment issues. With the demands of society on the company to provide social responsibility, the company developing the 3P concept introduced by Elkington (1997), which are People, Planet and Profit or called the Triple Bottom-Line concept. The concept is a reflection of the term known to various companies in the world, namely “sustainability”. Sustainability has its own meaning for the company, which is the company's ability to survive for as long as possible or called Long-Life Company.

Generally, companies only report annual reports every year, but because the importance of social responsibility and protection to the environment then some companies begin to report additional reports that called sustainability report (Jeffers, 2010). In accounting, aadditional reports can be made and applied but these are not mandatory reporting. In other word, sustainability reports only voluntary report.

For the company, sustainability report is a measure of achievement of work targets in the issue of Triple Bottom Line (Raar, 2002). For
investors, sustainability report serves as a tool of control over the performance of the company as well as a media consideration of investors in allocating financial resources (Manetti & Bellucci, 2016). While for others (media, government, customer, academic and others) sustainability report becomes a benchmark to assess the seriousness of the company's commitment to sustainable development. The sustainability reports contributes to the firm to understand the field where the company able to do better in decision making process as the environment, economic, and social performances are known and hence, the aims and moves could be conducted precisely (Adams et al., 2014). One of the guidelines used is GRI (Global Reporting Initiative).

In this case, sustainability reports disclosure to the stakeholder (in the form of Corporate Social Responsibility report), and it could be used by the company in order to survive (Vurro & Perrini, 2011). According to GRI (2013), sustainability report is the practice of measuring, disclosing, and accountability efforts of organizational performance in achieving sustainable development objectives to both internal and external stakeholders. According to Gadenne et al. (2012), sustainability report for the company is a publication of information that reflects the performance of the organization in the economic, environment, and social dimensions that can be a relation for the company to inform the organization's performance to all stakeholders.
Therefore, it is necessary to report sustainability that contains information on financial performance and non-financial information consisting of social and environment activities that emphasize the principles and standards of disclosure that can reflect the level of corporate activity as a whole to enable the company to grow continuously (Piotrowicz & Cuthbertson, 2009). According to (Murray et al., 2010), sustainability report has a close relationship with Corporate Social Responsibility. Corporate Social Responsibility (CSR) refers to the idea that the organization, in particular the company has various responsibilities to its stakeholders in all aspects of the company's operations covering economic, social and environment aspects (Moir, 2001), while sustainability report is a report made by the company which in the report that include not only financial performance information but non-financial information is also reported (Arvidsson, 2011).

Boyce (2000) asserted the importance of financial statements as a way for company management to inform stakeholders of the company’s financial condition in order to assist the stakeholders in their decision making process. The company’s performances, in the past, present and probable future, are reflected in its profit and the income figures also held an important role on the economic decision making of stakeholders (Gotsi & Wilson, 2001).

Many parties used financial statement in deciding their next moves such as: shareholders who base their decision on the profit figures in
putting investment, lenders will use it to consider loan grants, the government use it as the variable of calculation to set up corporate income tax rate, employees may calculate their welfare benefits on the profit numbers, and stakeholders reflect the continuity of their interest on these figures (Costa & Pesci, 2016).

However, these figures would cause a problematic situation if they were manipulated by the management of the company, as they are often used financial statement to show the performance of the companies. This action, known as earnings management, falsified the company’s accounting report through using figures that are not coherent with the company’s real financial conditions. This false numbers could delude the stakeholders’ decision-making process (Watts and Zimmerman, 1978).

On the other hand, Generally Accepted Accounting Principles (GAAP) allows managers of companies to define the accounting policies to control the desired number of reported earnings, despite the figures being different with the actual profits acquired. With this situation, the earning managements is identified as the moves of corporate managers as the judgments of the financial reports is reckoned which caused accounting alterations in the financial statements of the company to reflect better economics performances that ultimately misled shareholders (Healy & Wahlen, 1999).

Other parties who are involved in the company operations, such as the shareholders, employees, the company’s operation base, and the
communities surrounding it, as well as the managers themselves are vulnerable to the negative impact of earnings management (Zahra, Priem, & Rasheed, 2005). A company’s reputation may be tarnished once their earnings managements are found out, causing stakeholders to pull their support of the company while pressures from the affected parties begin accumulating against the company along with additional pressure from external parties such as boycotting activists and damaging coverage by media (Prior, Surroca & Tribó, 2008). It is expected that the stakeholders will express their dissatisfaction to the company, and in anticipation of the dissatisfactions, it is common for managers to deploy entrenchment strategy as a self-defense mechanism to protect the careers of managers involved and to preserve the company’s reputation (Fombrun, Gardberg, & Barnett, 2000; Bourne, 2011).

One of the most common entrenchment strategy deployed is disclose sustainability report, as it helps in maintaining positive image of the company through positive outreach and engagement with local community and environment (Orlitzky, Schmidt, & Rynes, 2003; Castelo & Lima, 2006). It also helps company in building great resume in the eyes of social activist groups, the media and the community. The research problem contains the suspicion of the sustainability report that is used by the managers as a shield in subsequent of the actions of harming the interest of stakeholder or shareholders (Aras & Crowther, 2013).
Cespa and Cestone (2007) explained how the CSR initiatives could be exploited to gain positive image among stakeholders and general society and in the same time manipulate the company earnings with lower chance of the pressure from the shareholders or stakeholders as the result of the damaged interest. Furthermore, the differences of earning management and sustainability report would directly related to the the financial of the company (Prior et al., 2008).

However, the disclosure of sustainability report by the companies that also conduct CSR is ought to be parallel with sufficient financial resources provision which in the long run has effect towards the financial performance of the companies (André, 2016). This is what triggers many researches on how the earnings management creates effect on sustainability report which also see the result towards financial performance of the company.

The companies selected in this study are companies in the non-financial sector, especially mining and energy infrastructure. This study uses a sample of non-financial companies, especially mining and energy infrastructure companies because of its business activities to manage and directly utilize natural resources and have a high risk of environment damage. The mining and energy infrastructure sector has an obligation to manage its environment and social environment as mentioned in Law Number 32 Year 2009 on Environment Protection and Management. Therefore, mining and energy infrastructure companies are the company
that closely related to social and environment around. Based on the description above, this research’s title is "Analysis of Sustainability Report Disclosure on Financial Performance with Earning Management as Moderating Variable”.

1.2 Problem Identification

The main issues that will be the subject of this research are:

1. Does the sustainability report affect the financial performance of the mining and energy infrastructure sector companies listed on the Indonesia Stock Exchange for period 2012 to 2016?

2. Does earnings management be able to strengthen or weaken the sustainability report’s relationship to financial performance in mining and energy infrastructure sector companies listed on Indonesia Stock Exchange for 2012 to 2016?

1.3 Research Objectives

1. To analyze the effect of sustainability report on financial performance on mining and energy infrastructure sector companies listed on Indonesia Stock Exchange for period 2012 to 2016,

2. To analyze whether earning management will be able to strengthen or even weaken the relationship of sustainability report on financial performance in mining and energy infrastructure sector companies listed on Indonesia Stock Exchange for period 2012 to 2016.
1.4 Significance of Study

The results of this study are expected to be useful for a variety of aspects, both theoretical aspects and practical aspects. The benefits are expected with this research are as follows:

1. Theoretical Benefit

Theoretically, this study in this research is expected to be used as input for academics to contribute to the development of a more complex model of previous research.

2. Practical Benefit

- For investors, the results of this study are expected to provide consideration to be careful in assessing the company because of sustainability report conducted by companies are sometimes motivated because of earnings management practices
- For stakeholders, this research is expected to be a warning signal that the obligation of sustainability disclosure also need to be followed by supervision and to avoid behavior opportunistic from the management and for the company to be more have responsibility to report sustainability.
- For the researcher, this research is expected to contribute in the development of theory, especially concerning management issues profit, sustainability report, and corporate financial performance.
1.5 Thesis Organization

Systematic writing of this research consists of 5 chapters.

Chapter I Introduction

This chapter discusses the background of the issue of sustainability report disclosure which is now the trend of companies in various countries as a form of disclosure of accountability to economic, social and environment performance as well as earnings management. Then, discuss about problem identification. Furthermore, discussing the purpose of research, usefulness of research, and systematics of writing.

Chapter II Literature Review

This chapter describes the theories about the research, prior research, frameworks, and hypothesis from the research which is conducted. This study use stakeholder theory, sustainability report and earning management. study has 2 hypotheses, such as (1) sustainability report has a positive effect on the company's financial performance.; (2) earnings management negatively affects relationship between sustainability report and corporate financial performance.

Chapter III Research Methodology

This chapter contains a description of population and sample research, identification variables, operational definitions of variables, and sources of research data, methods data collection and analysis.
Chapter IV Results and Analysis

This chapter describes in detail the general description of the object research, analysis and results and discussion of research results in accordance with analysis tool used.

Chapter V Conclusions and Recommendations

This chapter contains the research conclusions that are the result of the research conducted and advice addressed to the various parties who will do a similar study. This chapter also contains limitations or problems encountered during the study.
CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Stakeholder Theory

Stakeholder theory defines as policies and practices through values, legal compliance, stakeholder, social and environment, and the business world’s commitment in contribution of sustainable development (Moyeen & West, 2014). This can be achieved by accommodating the wishes as well as the needs of the stakeholders especially those with authority over the company’s operational activities in terms of the accessibility of the resources, such as markets over a company. One of the effort to maintain relationship with stakeholders and corporate shareholders is to disclose sustainability reports informing their economic, social, and environment performances as well as to all corporate stakeholders (Leszczynska, 2012). Through this disclosure is expected to get support by stakeholders that affect the survival of the company.

The disclosure of sustainability report is expected to meet the needs of stakeholders so that it will give good relationship between the company and its stakeholders so that the company can achieve the sustainability of the company. This theory also stated that the profits generated by the company should be beneficial for both the company and the stakeholders (Akisik & Gal, 2017).
2.1.2 Legitimacy Theory

This theory of legitimacy explains in relation to the efforts of the organization or company in ensuring that in its operation the organization or company operates within the framework and norms of society (Lopin, 2013). Legitimacy theory encourages companies to ensure that the activities and performance of the company are acceptable in the public.

The annual reports also illustrate how the company being responsible for environment issues, which help the company gains acceptance by the society (Chaharbaghi, Fendt, & Willis, 2003). Through the acceptance is expected to increase the value of the company which is intended to increase corporate profits.

2.1.3 Sustainability Report

According to Elkington (1997), sustainability report is a report that contains not only financial performance information but also non-financial information that consisting of information on social and environment activities. In this research, GRI-G4 Guidelines are used as a standard for disclosure of reporting on corporate social responsibility actions, covering economic, environment, labor practices, human rights, social and product responsibilities (Mori & Best, 2017). The total disclosure indicators that consist in the sustainability report are 91 items.
2.1.3.1 Disclosure Principles Sustainability Report

1. Balance

Positive and negative aspects need to be disclosed so that users of the report know clearly all the benefits and risks that exist.

2. Can be compared

The information that presented should be carefully presented so that it can be compared year by year.

3. Accurate

Accuracy and precision are needed so that users can properly assess organizational performance.

4. Sort time

Sustainability reporting should be appropriate on time as needed and scheduled.

5. Conformity

The sustainability report made must follow existing standards for compliance, so that users can understand the contents of the report.

6. Can be accounted for

The report arrangement must be gathered, documented, compiled, interpreted with deep analysis, and exposed accordingly so that the quality and the materialist of the information could be determined.
2.1.3.2 Sustainability reporting according to GRI-G4 consists of:

1. Economics

Economic conditions and impacts generated by companies at both local and global levels that include the creation and distribution of economic value, market presence and indirect economic impacts.

2. Environment

The impacts the company generates on creatures on earth, the environment and the natural ecosystem include the materials used, its energy and its consumption, waste, emissions, release of waste, products and services, compliance, transport, and assessment of those aspects as a whole.

3. Human Rights

Companies should always focus of the interests of shareholders and other stakeholders by looking forward the principle of equality that includes investment, management practices, non-discrimination principles, freedom of association, child labor, disciplinary practices, safeguards, and rights of indigenous peoples.

4. Society

The impact of corporate activities on the community and the reactions of possible social institutions that include various concerns and corporate movements anticipate or manage issues such as community, corruption, public policy, as well as anti-competitive behaviors such as anti-trust and monopoly.
5. Product responsibility

Product reporting generated by companies and services provided to consumers includes several aspects such as health and safety of users of products and customers in general, products and services, communication for marketing, and customer privacy.

6. Labor and decent work

It is about the social activities undertaken by companies covering employment, workers' conditions (number, gender composition, full time and part-time workers), labor relations with management, occupational safety and health, training, education, employee development, and diversity and opportunities.

2.1.4 Corporate financial Performance

Financial performance is an achievement work achieved by the company within a certain period and contained in the report financial company. The financial performance of the company identified as the guideline report to know the company financial condition, which illustrated by the financial figures on a certain period (Siew et al., 2013).

Measurement of the company's ability to generate profit is measured by using profitability ratios. Profitability is a comparative tool on various investment alternatives that suitable with the level of risk. Return on Equity (ROE) is the company's profitability ratio for measure how much profit is generated in each of the equity funded (Warusawitharana, 2013). ROE can be used as an indicator of corporate
performance management in treating shareholder’s equity within the company. This ratio measures how much profit the owner owns. Because the amount that used is net income after tax. The benefits that gained from investments that will be invested are the main considerations for a company in the framework of business development (Paetzold et al., 2015).

### 2.1.5 Earning Management

Company’s profit is the most important information from financial statements since it will reveal the company predicted value as revealed in the Statement of Financial Accounting Concept (SFAC). Therefore regarding the company’s performance, the management strives to make earnings management has a positives impression by the stakeholders. Scott (2009) explains the way to look at earnings managements into two ways.

First, through the condition of the opportunistic behavior of managers, earning management get the best out of its utility in the face of contrast of compensation, debt contracts, and political costs (opportunistic earnings management). Second, by taking perspective from an efficient earnings management, this kind of management gives managers the capacity to be flexible in defending themselves as well as the company in anticipating unforeseen situation towards the benefit of every parties implied in the contract..

Four patterns of earnings management are described by Scott (2009) as follows:
1. *Taking a bath*, is when the management must report the loss, the management will report in large quantities.

2. *Income minimization*, which is the action to reduce the company's profits made by managers for certain purposes, for example for the purpose of saving the obligation to pay taxes to the government because the lower the reported profits lower the company also taxes to be paid.

3. *Income maximization*, which is the action of raising the company's earnings by a certain goal. For example: during the IPO, profit is increased in the hope of getting a positive reaction from the market.

4. *Income smoothing*, this policy is done because of the motivation of management to reduce fluctuations in reported earnings because investors generally like a relatively stable profit.

According to Scott (2009) there are several motivations that can encourage management to make earnings management, which are:

1. Contract Motivation

   According to Healy (1985) there is a bonus contract for the manager's performance which is also called bonus scheme where the manager will get a bonus if the company's profit in the current year is able to exceed the specified target. The use of accounting numbers in bonus contracts will trigger managers to adjust earnings
at a certain level in order to maximize the compensation / bonus they receive.

2. Political Motivation

This type of motivation usually occurs for companies with large-scale operations, the companies in strategic industries and monopolistic companies. This is because companies of that category can affect the lives of most societies so that they often become political targets. This is done with the aim to hide the strengths owned by the company so it can avoid the political target and minimize the political cost.

3. Tax Motivation

Tax motivation can be a motivation for managers in making earnings management by reducing taxable profits in order to reduce the amount of tax paid. That efforts made to reduce the taxable income is to use accounting methods in the value of inventory and depreciation.

4. Motivation of Chief Executive Officers (CEO) Replacement

CEO tend to choose accounting methods that can enlarge reported profits with the aim of earning huge bonuses towards the end of their term of office, so they will not be dismissed before their term ends. Similarly, CEOs with poor performance, they tend
to perform high earnings management to prevent or cancel the possibility for being dismissed from the position.

5. Motivation for Implementation of Initial Public Offering (IPO)

The company's financial statements included in the prospectus of IPO implementation are used as one of the considerations in the market valuation of the shares of companies when conducting the IPO. These conditions provide an opportunity for managers to make earnings management in an effort to make financial statements with the number of positive earnings and show a good performance of management.
## 2.1.6 Previous Research

<table>
<thead>
<tr>
<th>No.</th>
<th>Researcher (Year)</th>
<th>Research Title</th>
<th>Research Variable</th>
<th>The Result</th>
</tr>
</thead>
</table>
**Dependent:** CED  
**Moderating:** CG (the size of the board of directors, number of committee meetings audit)  
**Controls:** size company, leverage, profitability, type industry | Finding out significant relationship between CED and profit management.  
Number of committee meetings audit has significant relationship between CED and profit management. |
**Dependent:** CSR  
**Control:** investment R&D, concentration ownership, | Company with CSR activity high is very possible engage in practice profit management. |
Dependent: management profit  
Moderating: profit management  
Controls: size company, size board of Commissioners, concentration ownership, ownership constitutional, leverage | Earning management does not have effect on CSR activities.CSR activities that are associated with earnings management done manager as a strategy self defense have effect negative in performance corporate finance in the future come. |
|---|---|---|---|---|
Dependent: ROE dan CSR  
Control: leverage, growth, beta (proksi) | Corporate Social Responsibility effect on financial performance companies (ROE and CSR) |
2.2 Hypothesis Development

2.2.1 The influence the Sustainability Report and Company Financial Performance

The aims of the sustainability report is to inform how the company's from aspect economic, social and environment performance. Sustainability report is intended as a form of corporate responsibility to stakeholders and evidence that the company is within the limits of existing regulations. Companies need to disclose the sustainability report to gain stakeholder trust, as stakeholder trust is required for the company's business continuity.

Disclose sustainability report will increase the transparency of companies that impact on investor confidence and financial performance. Research conducted by Sun et al. (2010) states that the disclosure of sustainability has a positive effect on financial performance. The disclosure of sustainability report on financial performance due to the disclosed information can assure the potential of competitive capital
resources with low risk level on stakeholders and this will affect the increase in profit and financial performance. Based on the description and result of the research, the first hypothesis in this research is:

\[ H_1: \text{Sustainability report has a positive effect on the company's financial performance.} \]

### 2.2.2 The influence Sustainability Report and Company Financial Performance with Earning Management as Moderating Variable

Reporting CSR activities or disclose sustainability reports is a form of voluntary disclosure in Indonesia. Corporate Social Responsibility is an activity that must be done by companies as regulated in Law no. 40 year 2007 article 66 paragraph 2b and article 74. However, the reporting of such activities separately from the financial statements and annual reports is only an voluntary disclosure. The company's desire to report the information voluntarily will show greater transparency of the company. Sustainability reporting is also a form of voluntary disclosure that enhances corporate transparency.

A study conducted by Houg and Andersen (2011) stated that firms with higher GRI application levels will have better corporate governance because the company is already capable of demonstrating more comprehensive sustainability strategies that affect all objectives and principles in company. So it can be concluded that disclosure of sustainability reports will reflect better corporate governance so as to reduce earnings management behavior (Xie et al., 2003). In vice versa,
companies with lots of earning management tend to contribute less to disclose sustainability report reports.

This study are in accordance with research conducted by Erica et al. (2011) which concludes that companies that disclose sustainability report will tend to engage in smaller earnings management practices so that reported earnings will have better quality. This study are also in accordance with research Orlitzky et al. (2012) which states that companies that contribute more in carrying out social responsibility activities and also disclose sustainability report will tend to have a smaller profit management practices.

As one of the way to satisfy the interests of stakeholders, management has two reasons did earnings management. First, as a preventive to anticipate the stakeholder concern on earning management actions that could jeopardize its position within the company. Second, as a self-management tool that tends to equalize the diversity interests of stakeholders. But, decreasing or increasing profit to show company best performance will mislead stakeholder trust. The discovery of profit manipulation activities will take away the stakeholder trust and harm the flexibility of the company to generate revenue. Therefore, the influence of earning management weaken this relationship since it decreases the value of disclosure to effect financial performance when the stakeholder found out about the earning manipulation.

2.3 Theoretical Framework

![Diagram showing the theoretical framework with variables and hypotheses]
CHAPTER III

METHODOLOGY

3.1 Research Design

The design of this research is using a quantitative research. The theories that used in this research are earning management, sustainability report and profitability. The type of this research is associative causal research. Associative causal research is a study that aims to analyze the relationship between one variable with other variables or how a variable affects other variables.

3.2 Operational Definition of Variables

3.2.1 Independent Variables

In this research, the independent variable is sustainability report based on the total economy dimensions, environment dimension, and social dimension. This variable is measured through GRI-G4's Sustainability Report Disclosure Index (SRDI). The total of sustainability report are 91 items. SRDI gives a value of 1 if the item is disclosed and vice versa, it gives a score of 0 when it is not and then summed together. After scoring on each index, the score is then into the SRDI formula.

\[
\text{SRDI} = \frac{n}{k}
\]
SRDI : Sustainability Report Disclosure Index

n : Items that be disclosed by the company

k : Items that should be disclosed by company

### 3.2.2 Dependent Variable

The dependent variable in this research is the financial performance measured by using Return on Equity (ROE). This ratio is a measure of profitability from the point of shareholder to measure the performance of the company's operations. ROE is the company's ability to generate profits with its own capital. The purpose of a company is to generate profits that are beneficial to shareholders. The higher the ROE which means the higher company's ability to generate profits for shareholders.

\[
\text{ROE: } \frac{\text{Net Profit After tax}}{\text{Total Equity}} \times 100\%
\]

### 3.2.3 Moderating Variable

Moderating variable can strengthen or weaken the relationship between variables. The moderating variable is used because there are other variables that influence the sustainability report relationship with the financial performance. Earnings management is a moderating variable and expressed by the symbol of DA variable.
This research uses the accrual variable Jones model compliance by Dechow, Sloan and Sweeney (1996) that aims to discover earning management. Earnings management is being proxy by discretionary accruals calculated using The Modified Jones Model. Modified Jones model is used because it is considered as the best model in detecting earning management compared to other models and gives the most powerful results (Dechow et al., 1996), as follows:

\[
\text{TACC}_{it} = \text{EXBT}_{it} - \text{OCF}_{it} \\
\text{TACC}_{it}/\text{TA}_{i,t-1} = \alpha_1(1/\text{TA}_{i,t-1}) + \alpha_2((\Delta \text{REV}_{it} - \Delta \text{REC}_{it})/\text{TA}_{i,t-1}) + \alpha_3(\text{PPE}_{it}/\text{TA}_{i,t-1}) + \epsilon_t
\]

Regression equation above shows NDACC calculated by including the return coefficient \( \alpha_1, \alpha_2, \) and \( \alpha_3 \) to the following equation:

\[
\begin{align*}
\text{NDACC}_{it} & = \alpha_1(1/\text{TA}_{i,t-1}) + \alpha_2((\Delta \text{REV}_{it} - \Delta \text{REC}_{it})/\text{TA}_{i,t-1}) + \alpha_3(\text{PPE}_{it}/\text{TA}_{i,t-1}) \\
\text{DACC}_{it} & = (\text{TACC}_{it}/\text{TA}_{i,t-1}) - \text{NDACC}_{it}
\end{align*}
\]  

Where:

- \( \text{TACC}_{it} \) = total accruals firm \( i \) in period \( t \);
- \( \text{EBX}_{it} \) = earnings before extraordinary item firm \( i \) in period \( t \);
- \( \text{OCF}_{it} \) = operating cash flows firm \( i \) in period \( t \);
- \( \text{TA}_{i, t-1} \) = total asset firm \( i \) in period \( t-1 \);
- \( \text{REV}_{it} \) = revenue firm \( i \) in period \( t \);
- \( \text{REC}_{it} \) = account receivable (net) firm \( i \) in period \( t \);
PPE\textsubscript{it} = fixed assets (gross) firm i in period t;

e = error term (proxy of discretionary accruals).

DACC\textsubscript{it} = Discretionary accruals of firm i in period t

NDACC\textsubscript{it} = Non-discretionary accruals of firm i in period t

### 3.2.4 Control Variable

1. Company Size

   According to Arıkan & Güner (2013), large companies are generally more active in social performance initiatives and publications than small companies. At the same time, company size can also have an impact on the company's financial performance. The size of firms is measured by operational scale in organizations, large enterprises that have reached economies of scale tend to have more control over resources and increase attractiveness and retention in qualified employees.

   Therefore, company size is used as control variable in this research. The firm size variable is expressed by the SIZE symbol. Measurement of this variable is done by using the logarithm of total assets.

2. The size of the board commissioners

   The board of commissioners is a member of a company commissioner who is not a majority shareholder, or directly or indirectly related to the majority shareholder. LI & Xu (2014) stated that the board of commissioners has a duty to monitor and control the CEO. As the increasing number of members of the board of commissioners, it will be easier to control the CEO and the more effective the monitoring will.
The size of the board of commissioners used in this study is consistent with Sun et al. (2010) namely the number of members of the board of commissioners. The size of the board of commissioners is expressed by the symbol of the KOM variable.

3. Leverage

According to Wieland & Flavel (2015), leverage can be interpreted as an inherent risk estimator of a company. It means, high leverage can be stated risk to invest that company is also high.

Leverage is the ability of company in covering their debt. Leverage is measured as the ratio of total debt to total assets. The leverage control variable is expressed by the symbol of the LEV variable.

3.3 Sampling Design

Research data collected to build the models of this study are secondary data obtained from annual financial reports of mining and energy Infrastructure Company that is included in the Indonesia Stock Exchange (IDX) in the year of 2012-2016.

Sources of research data obtained from the publication of financial statements obtained from the Indonesian Stock Exchange (www.idx.co.id),

Sample selection technique used is purposive sampling, with the following criteria:

1. Mining and Energy Infrastructure companies that consistently listed in Indonesia Stock Exchange for period 2012 – 2016
2. Mining and Energy Infrastructure companies that publish its financial statements for five consecutive years, period of 2012 - 2016


The company that suitable with the criteria of purposive sampling consists of Mining and Energy Infrastructure companies with research for 5 years so that the total sample are 35, as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Code</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ANTM</td>
<td>PT Aneka Tambang, Tbk</td>
</tr>
<tr>
<td>2</td>
<td>INCO</td>
<td>PT Vale Indonesia, Tbk</td>
</tr>
<tr>
<td>3</td>
<td>PTBA</td>
<td>PT Tambang Batubara Bukit Asam, Tbk</td>
</tr>
<tr>
<td>4</td>
<td>PTRO</td>
<td>PT Petrosea, Tbk</td>
</tr>
<tr>
<td>5</td>
<td>ITMG</td>
<td>PT Indo Tambangraya Megah</td>
</tr>
<tr>
<td>6</td>
<td>PGAS</td>
<td>PT. Perusahaan Gas Negara (Persero) Tbk</td>
</tr>
<tr>
<td>7</td>
<td>INDY</td>
<td>PT. Indika Energy Tbk</td>
</tr>
</tbody>
</table>

### 3.4 Research Instrument

This research using empirical data that created by the company in the form of company annual report, sustainability report and financial statement. The literature study is done by reading and observing the literature and opinions of economists, whose sources are derived from
literature books, journals and other materials related to the issues to be discussed. Documentation method is used to get data of the financial statement and annual report that includes sustainability information from GRI 4.0 index from GRI websites and some other references.

3.5 Statistical Analysis

Data analysis will be test by using linear regression technique. This is because this research will test the influence of sustainability report on company's financial performance and will test whether the influence of earnings management will weaken or strengthen the relationship between variable of Sustainability Report with financial performance.

To test the first hypothesis, this research will use simple linear regression technique that is influence of Sustainability Report to company financial performance. This research uses simple linear regression technique because there is only one independent variable and one dependent variable in the test. For the second hypothesis using multiple regression techniques because there are more than independent variables with 1 dependent variable.

Before the regression model is used to test the hypothesis, first classic assumption testing is done. The purpose of this test is to know the significance of the relationship between independent variables and dependent variables so that the results of analysis can be interpreted more accurately, efficiently, and limited from the weaknesses that occur due to the still existence of classic assumptions. In this study also conducted
descriptive statistical analysis used to provide descriptions of research variables.

3.5.1 Descriptive Statistics Analysis

Descriptive statistics provide an overview of a variable viewed from the mean, standard deviation, maximum value and minimum value (Ghozali, 2013). The metric variable data distribution is indicated by the value of standard deviation, maximum and minimum value. Data with a larger standard deviation value illustrates that the data is spreading.

3.5.2 Classic Assumption Test

The purpose of testing this classic assumption is to test and know feasibility of the regression model used in this study. This test also used to ensure that the regression model used inside this model is completely free from effect of heteroscedasticity, effect of multicollinearity, and autocorrelation effect. It also to ensure that data which is residual data. (Ghozali, 2013). Classic assumption test exercised together with the regression test process so that the steps in testing the classic assumption using the same step with the regression test.

1. Normality Test

The normality test aims to test whether in the regression model consist of disturbing variable or residual variable has a normal distribution. There are two ways to find out whether residuals are normally distributed or not which are by graphical analysis and statistical tests. Because
graphical analysis can be misleading, Kolmogorov-Smirnov statistic test is chosen by looking at the significance level. This test is performed before the data is processed.

Detection of normality of data whether distributed normally or not by using Kolmogorov-Smirnov test. The residual is otherwise normally distributed if the significance value of Kolmogorov-Smirnov > 0.05 (Ghozali, 2013).

2. **Autocorrelation Test**

The purpose of autocorrelation test is to verify the correlation between the disturbing errors in the t period with the same errors in the t-1 period, within a linear regression model (Ghozali, 2013). The Durbin-Watson testing method is used to locate the existence of the autocorrelation.

3. **Heteroscedasticity Test**

Heteroscedasticity test is aimed to prove the occurrence of inequality of variance from the residual of one observation to another, within a regression model (Ghozali, 2013). Proper regression model is homoscedasticity, which is an occurrence where the variance from one observation’s residual to another is constant. Heteroscedasticity can be performed through graphic plot test and statistic test.

Glejser statistic test is preferred due to its better accuracy compared to graphic plot test, whose results may come out as bias. Glejser test is executed by processing the independent variables together with the
absolute value of the residuals through regression analysis. Heteroscedasticity can be interpreted by observing the ROE significance to the residual’s absolute value. Heteroscedasticity disturbance happened when there is a significant effect from the ROE to the residual’s absolute. In an occurrence where the probability of ROE significance is <0.05, then it can be determined to contain heteroscedasticity.

4. Multicollinearity Test

The purpose of multicollinearity test is to determine the correlation between interdependent variables within a regression model (Ghozali, 2013). The test is conducted by observing the VIF value of each independent variables, and if the VIF value<10, it can be concluded that the data is excused from any sign of multicolinearity.

3.5.3 Multiple Regression Analysis

Hypotnesis 1 is tested using a simple linear regression model. The statistical equation used:

\[ Y = \alpha + \beta_1SR + \beta_{2KOM} + \beta_{3LEV} + \beta_{1SIZE} + e \]  \hspace{1cm} (1)

Hypotnesis 2 is tested by using absolute residual test. The statistical equation used:

\[ Y = \alpha + \beta_6SR + \beta_{7DA} + \beta_{8SR*DA} + \beta_{2KOM} + \beta_{3LEV} + \beta_{4SIZE} e \]  \hspace{1cm} (2)

Where:

\( Y = \) Indication of Financial Performance (ROE)

\( SR = \) Sustainability Report Index
DA = Earnings management
SR_DA = Moderator variable (absolute residual)
\( \alpha \) = Constants
\( \beta_0 \) = Constants
\( e \) = error
LEV = Leverage of the company
SIZE = Size of the company
KOM = The size of the board of commissioners

3.5.4 F-Test

F test is used to determine the effect of independent variables to the dependent variable together by looking at its F value. The significant level in this research is 5%. Where if significance value F <0.05 (Ghozali, 2013).

3.5.5 T-Test

A partial test is used to show how far an independent variable is individually in explaining the dependent variable. The significant level in this study was 5%. Where if the probability number significance > 5% then H0 is rejected, if the probability number of significance <5% then H0 be accepted (Ghozali, 2013).

3.5.6 Coefficient determinant (R²)

The coefficient determinant (R²) uses to measure the model's ability to explore the variation created by dependent variable. The range of
the coefficient determinant is 0 to 1. The small value ($R^2$) indicates the capability of independent variables to show the limited variation of the dependent variable while the value resulted close to 1, which means that the dependent variable is proven to be predictable by independent variable cover almost all information needed (Ghozali, 2013).
CHAPTER IV

RESULT AND DISCUSSION

4.1 Descriptive Analysis

Descriptive statistics describes the data to give the information about mean, standard deviation, minimum and maximum. The descriptive statistical analysis is done by SPSS program version 24.

Table 4.1

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>35</td>
<td>-0.14</td>
<td>0.43</td>
<td>0.1117</td>
<td>0.14833</td>
</tr>
<tr>
<td>Sustainability Report</td>
<td>35</td>
<td>0.09</td>
<td>0.96</td>
<td>0.4794</td>
<td>0.26516</td>
</tr>
<tr>
<td>Size Of Board Comissioners</td>
<td>35</td>
<td>4.00</td>
<td>10.00</td>
<td>6.2571</td>
<td>1.63316</td>
</tr>
<tr>
<td>Leverage</td>
<td>35</td>
<td>0.18</td>
<td>0.65</td>
<td>0.4259</td>
<td>0.13776</td>
</tr>
<tr>
<td>Company Size</td>
<td>35</td>
<td>29.30</td>
<td>32.16</td>
<td>30.7331</td>
<td>0.72639</td>
</tr>
<tr>
<td>Earning Management</td>
<td>35</td>
<td>-0.04</td>
<td>0.21</td>
<td>0.0589</td>
<td>0.05229</td>
</tr>
</tbody>
</table>

Based on table above, the minimum value, maximum value, average, and standard deviation of each sample are explained below:

1. The minimum value of financial performance is -0.14, the maximum is 0.43, the average is 0.1117, with the standard deviation of 0.14833 The average value of financial performance
is 0.1117 which means that the company is able to get net profit up to 11.17% of all assets owned by the company.

2. Sustainability report has the minimum value is 0.09, the maximum is 0.96, the average is 0.4794, with a standard deviation of 0.26516. Sustainability report variable has an average value of 0.4794. This indicates that most companies have disclosed their sustainability report well and in accordance with the criteria set by GRI- G4.

3. Earning management value is -0.04, the maximum is 0.21, the average is 0.0589, with the standard deviation of 0.05229. Earning management variable is used as one of the tools to detect the presence or absence of earnings management practices conducted by managers. The test results show the average value of discretionary accruals of 0.589.

4. Board of commissioners has minimum value is 4.00, maximum 10.00, average 6.2571, with standard deviation of 1.63316.

5. Leverage minimum value 0.18, maximum 0.65, average 0.4259, with a standard deviation of 0.13776.

6. Company Size minimum value 29.30, maximum 32.16, average 30.7331, with standard deviation of 0.72639
4.2 Data Analysis

4.2.1 Assumption Test

1. Normality test

Normality test has a purpose to test whether in the regression model or residual variable is normally distributed. Normality test results as follows:

<table>
<thead>
<tr>
<th>Significant Value</th>
<th>Unstandardized Residual 1</th>
<th>Unstandardized Residual 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.911</td>
<td>0.999</td>
</tr>
</tbody>
</table>

Kolmogorov-Smirnov test results showed that both models have a significance value greater than 0.05 that is equal to 0.911 and 0.999 indicating that H0 is accepted.

Beside Kolmogorov-Smirnov test, the normality test is also based on the scatter plots. If the points are around the diagonal line, indicating the residual data is normally distributed.
Table 4.3.
Normality Test Results - Model 1

Table 4.4.
Normality Test Results - Model 2
Based on the graph above, both models show the spots that spread around the diagonal line, it indicates that H0 is accepted.

2. Multicollinearity Test

The purpose of multicollinearity test is to determine the correlation between interdependent variables within a regression model. Test results are obtained as follows:

Table 4.5
Model 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
<td></td>
</tr>
<tr>
<td>Sustainability report</td>
<td>0.909</td>
<td>1.100</td>
<td></td>
</tr>
<tr>
<td>Board of Commisioners</td>
<td>0.373</td>
<td>2.681</td>
<td></td>
</tr>
<tr>
<td>Company Size</td>
<td>0.397</td>
<td>2.520</td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>0.871</td>
<td>1.148</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.6
Model 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
<td></td>
</tr>
<tr>
<td>Board of Commisioners</td>
<td>0.351</td>
<td>2.848</td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>0.360</td>
<td>2.781</td>
<td></td>
</tr>
</tbody>
</table>
Based on the results of tests that have been done, there is no variable that has a VIF value higher than 10. All the variables both in model 1 and model 2 have VIF values below 10, it can be concluded in the first model or in the second regression model does not contain multicollinearity problems.

### 3. Autocorrelation Test

The purpose of autocorrelation test is to verify the correlation between the disturbing errors in the t period with the same errors in the t-1 period, within a linear regression mode. Durbin-Watson autocorrelation test results are presented in the following table:

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>
Based on the result of regression analysis, in model 1, the value of DW (1.920) is between the value of du (1.7259) and 4-dU (2.2741) as well as in model 2 the value of DW (1.890) is between the value of du (1.8835) and 4-dU (2.1165). This indicates that model 1 and model 2 do not contain autocorrelation.

4. Heteroscedasticity Test

Table 4.9

Heteroscedasticity Test Results (Glejser)-Model 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability report</td>
<td>0.542</td>
</tr>
<tr>
<td>Board of Commissioner</td>
<td>0.131</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.518</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.409</td>
</tr>
</tbody>
</table>

Table 4.10

Heteroscedasticity Test Results (Glejser)-Model 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of commissioners</td>
<td>0.608</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.669</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.886</td>
</tr>
<tr>
<td>Sustainability report</td>
<td>0.570</td>
</tr>
<tr>
<td>Earning management</td>
<td>0.398</td>
</tr>
<tr>
<td>Sustainability report</td>
<td>0.233</td>
</tr>
<tr>
<td>report*Earning management</td>
<td></td>
</tr>
</tbody>
</table>
The Glejser test results show that there is no independent variables that are statistically significant affect the dependent variable. It can be seen from the probability significance above the 0.05 confidence level on both regression models, then it can determine that the Glejser test results strengthen the absence of heteroscedasticity problem in both regression models.

4.3 Hypothesis Testing

4.3.1 Coefficient Determinant (R²)

Table 4.11

<table>
<thead>
<tr>
<th>H₁</th>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adjusted R²</td>
<td>0.266</td>
</tr>
</tbody>
</table>

Based on the SPSS output the summary model, the adjusted R square is 0.266 in model 1. This means that 26.6% financial performance variable can be affected by variables company size, leverage, sustainability report, and board of commisioners. The other 73.4% is influenced by other variables outside the model.

Table 4.12

<table>
<thead>
<tr>
<th>H₂</th>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adjusted R²</td>
<td>0.484</td>
</tr>
</tbody>
</table>
The value of the coefficient determinant (adjusted R square) in this model 2 is 0.484. This shows that only 48.4% of financial performance variables in this study can be explained by moderator variable, board of commisioners, company size, earning management, sustainability report, leverage. While the 51.6% financial performance variable can be explained by other variables that are outside the model that has been tested.

### 4.3.2 F Test

**H₁**

<table>
<thead>
<tr>
<th>Model</th>
<th>F Test</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.073</td>
<td>0.009</td>
</tr>
</tbody>
</table>

Result of regression model test with ANOVA test or F test is 4.073 with significance value is 0.009 at model 1. The significance value is lower than 0.05. This means that company size, leverage, sustainability report, and board of commisioners variables simultaneously affect the ROE.

**H₂**

<table>
<thead>
<tr>
<th>Model</th>
<th>F Test</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.307</td>
<td>0.000</td>
</tr>
</tbody>
</table>


Based on the results of data, the value of F is 6.307 with significance of 0.000 in model 2. This second model shows that the significance value smaller than 0.05 indicates that moderator variable, board of commisioners, company size, earning management, sustaianability report, leverage simultaneously can be used to predict ROE variable.

4.3.3 T Test

<table>
<thead>
<tr>
<th>Model</th>
<th>t.</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.065</td>
<td>0.946</td>
</tr>
<tr>
<td>Sustainability report</td>
<td>0.194</td>
<td>2.249</td>
</tr>
<tr>
<td>Board of Commisioners</td>
<td>-0.063</td>
<td>-2.880</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.746</td>
<td>-2.971</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.022</td>
<td>0.673</td>
</tr>
</tbody>
</table>

- The influence of sustainability report towards financial performance

From the table, the significance of sustainability report is 0.032 with the significance is less than 0.05, which means the sustainability report affect towards financial performance. Therefore, for the first model it can be concluded that **Hypothesis 1 is accepted.**
- **The influence of board of commissioners towards financial performance**

  From the table, the significance of board of commissioners is 0.007 with significance is less than 0.05, which means the board of commissioners influence towards financial performance.

- **The influence of leverage towards financial performance**

  From the table, the significance of leverage is 0.007 with significance is less than 0.05, which means the leverage influence towards financial performance.

- **The influence of company size towards financial performance**

  From the table, the significance of company size is 0.506 with significance is more than 0.05, which means the company size has no effect towards financial performance.

### Table 4.16

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficient</th>
<th>t.</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.020</td>
<td></td>
<td>.981</td>
</tr>
<tr>
<td>Board of Commissioners</td>
<td>-0.048</td>
<td>-2.516</td>
<td>0.018</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.490</td>
<td>-2.216</td>
<td>0.035</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.022</td>
<td>0.813</td>
<td>0.423</td>
</tr>
<tr>
<td>Sustainability report</td>
<td>0.022</td>
<td>1.085</td>
<td>0.287</td>
</tr>
<tr>
<td>Earning management</td>
<td>0.033</td>
<td>1.629</td>
<td>0.115</td>
</tr>
<tr>
<td>Sustainability report*Earning management</td>
<td>-0.087</td>
<td>-3.181</td>
<td>0.004</td>
</tr>
</tbody>
</table>
- The influence of sustainability report*earning management towards financial performance

From the table, the significance of SRDA is 0.004 with the significance is less than 0.05, which means that earning management is negatively affect towards sustainability report and financial performance. Therefore, this second model it can be concluded that **Hypothesis 2 is accepted.**

- The influence of board of commissioners towards financial performance

From the table, the significance of board of commisioners is 0.018 with significance is less than 0.05, which means the board of commisioners influence towards financial performance.

- The influence of leverage towards financial performance

From the table, the significance of leverage is 0.035 with significance is less than 0.05, which means the leverage influence towards financial performance.

- The influence of company size towards financial performance

From the table, the significance of company size is 0.423 with significance is more than 0.05, which means the company size has no effect towards financial performance.

- The influence of sustainability report towards financial performance
From the table, the significance of sustainability report is 0.287 with the significance is less than 0.05, which means the sustainability report influence towards financial performance.

- **The influence of Earning mananagement towards financial performance**

  From the table, the significance of earning management is 0.115 with the significance is more than 0.05, which means the earning management has no effect towards financial performance.

### 4.4 Interpretation Result

1. **The effect of sustainability report disclosure on financial performance**

   The test results show that sustainability report disclosure has a significant effect on financial performance with positive direction. This result is in accordance with the study conducted by Siew et al. (2013) that stated that the purpose of company using sustainability reporting framework is to communicate management performance in achieving long-term profit to stakeholders, such as improved financial performance, an increase in competitive advantage, profit maximization, and long-term company success. Sustainability Report Disclosure by the company will provide positive information about the things that the company does with regard to economic, environment, labor, product, and other social issues.
However information in the sustainability report can be one of the promotional media for the public so that the positive attitude of society towards the company will be greater. This can impact on improving the performance and ability of the company in getting profit.

2. The effect of earning management in moderating sustainability report disclosure to the company's financial performance

The result of hypothesis test shows that SRDA shows significantly affect when moderating sustainability disclosure to Company Financial Performance. Stakeholder theory proposed by Donaldson and Preston (1995) states that positive relationship with stakeholders (shareholder) is a key to improve financial performance can be achieved with good management. The underlying assumption of this theory proves that disclosure sustainability report can be used as an organizational tool to use resources more effective (Orlitzky et al., 2003), which has a positive impact to the company's financial performance.

Exposing the sustainability report would leads to weaken impact in concern to the earning management. Based on entrenchment strategy, manager initiates earning management to involve stakeholder as one of ways to validate the action in order to anticipate getting pressure from the other stakeholders.
As one of the way to satisfy the interests of stakeholders, management has two reasons did earnings management. First, as a preventive to anticipate the stakeholder concern on earning management actions that could jeopardize its position within the company. Second, as a self-management tool that tends to equalize the diversity interests of stakeholders. But, decreasing or increasing profit to show company best performance will mislead stakeholder trust. The discovery of profit manipulation activities will take away the stakeholder trust and harm the flexibility of the company to generate revenue. Therefore, the influence of earning management weaken this relationship since it decreases the value of disclosure to effect financial performance when the stakeholder found out about the earning manipulation.
CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study aims to test and obtain empirical evidence about the effect of sustainability report disclosure on financial performance with earnings management as a moderating variable. Based on the results of the analysis that has been done and the sample are the companies that operated in the Mining Sector and Energy Infrastructure listed on the Indonesia Stock Exchange period 2012 to 2016, the conclusions of this research are:

1. Sustainability report has a significant influence on financial performance. Board of commissioner's variable and leverage also have a significant effect on financial performance. While the size of the company has no significant effect on financial performance.

2. Earnings management weaken the relationship between sustainability report and the company's financial performance. The higher of earnings management will have a negative affect on the relationship between sustainability report and financial performance.
5.2 **Limitations of Research**

The limitations of this study are as follows:

1. The number of samples is relatively limited are 7 companies. The limited number of companies that appropriate to be the sample of this study is caused by the few companies listed on the BEI that disclose sustainability report consistently during the research period.

2. Proxy of company's financial performance only use Return On Equity (ROE).

5.3 **Recommendations**

Based on the results and limitations obtained in this study, then some suggestions can be given:

1. Future research is expected to enlarge samples for example by adding years to be observed or by including all types of companies.

2. Future research should use more than 1 proxy to assess the company's financial performance for example adding ROA, net profit margin and other profitability ratio.

3. Future research can comparing the financial performance between the company that report sustainability report and non report sustainability report.
5.4 Implications

The result of this study may have implications towards existing theories and practices. The theory by Prior et al. (2008) concluded that higher level of earnings management through the guise of sustainability report may negatively affect the financial performance of the company in the future because disclose sustainability report existed as a the management’s entrenchment strategy to cover their earnings management practices. Sustainability report act as a manipulation to align the stakeholders into agreeing with the program, not knowing that the program exist as to cover the ill manners of the managements and can harm the interests of the stakeholders.

In regards of its practical implications, this research can be used as reference for practitioners of business, mainly the investors and creditors who are involved in the companies that are applying earnings management. It is expected of these investors and creditors to be more careful in their decision-making process and consideration to invest in the company (such as providing loans), especially in mining and energy infrastructure. Towards the company management, it is expected of them to notice the importance of disclose sustainability report for the company continuous performance in the future. Hence, the management is expected to harmonize the various interests of stakeholders through disclose sustainability report by maximizing the positive impacts and minimize negative impacts of a particular business activity. While management
cannot avoid opportunities for earnings management practices in reporting
the company’s financial performance, the expected earnings management
actions should not be detrimental to the interests of other stakeholders in
the long run. Therefore, the company can enjoy the benefits that
sustainability report brings onto their financial performance while also
enjoyed by the wider public.
REFERENCES


### APPENDICES

1. **Sampling Criteria**

<table>
<thead>
<tr>
<th>No</th>
<th>Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mining and Energy Infrastructure companies that consistently listed in Indonesia Stock Exchange for period 2012 – 2016</td>
<td>49</td>
</tr>
<tr>
<td>2</td>
<td>Mining and Energy Infrastructure companies that did not publish its financial statements for five consecutive years for period 2012-2016</td>
<td>(10)</td>
</tr>
<tr>
<td>3</td>
<td>Mining and Energy Infrastructure companies that did not publish sustainability report for period 2012-2016.</td>
<td>(32)</td>
</tr>
<tr>
<td></td>
<td><strong>Total Mining and Energy Infrastructure companies that suitable with criteria.</strong></td>
<td>7</td>
</tr>
<tr>
<td></td>
<td><strong>Total Sample</strong></td>
<td>35</td>
</tr>
</tbody>
</table>
2. The Result of Return on equity

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>Return on Equity (ROE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANTM</td>
<td>Aneka Tambang</td>
<td>23%</td>
</tr>
<tr>
<td>INCO</td>
<td>Vale Indonesia</td>
<td>4%</td>
</tr>
<tr>
<td>PTBA</td>
<td>Tambang Batubara Bukit Asam</td>
<td>34.2%</td>
</tr>
<tr>
<td>PTRO</td>
<td>Petrosea</td>
<td>26%</td>
</tr>
<tr>
<td>ITMG</td>
<td>Indo Tambangraya Megah</td>
<td>43%</td>
</tr>
<tr>
<td>INDY</td>
<td>Indika Energy</td>
<td>9%</td>
</tr>
<tr>
<td>PGAS</td>
<td>Perusahaan Gas Negara</td>
<td>39%</td>
</tr>
</tbody>
</table>

3. The Result of Sustainability Index

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>SR Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANTM</td>
<td>Aneka Tambang</td>
<td>0.923</td>
</tr>
<tr>
<td>INCO</td>
<td>Vale Indonesia</td>
<td>0.824</td>
</tr>
<tr>
<td>PTBA</td>
<td>Tambang Batubara Bukit Asam</td>
<td>0.91</td>
</tr>
<tr>
<td>PTRO</td>
<td>Petrosea</td>
<td>0.5165</td>
</tr>
<tr>
<td>ITMG</td>
<td>Indo Tambangraya Megah</td>
<td>0.417</td>
</tr>
<tr>
<td>INDY</td>
<td>Indika Energy</td>
<td>0.7802</td>
</tr>
<tr>
<td>PGAS</td>
<td>Perusahaan Gas Negara</td>
<td>0.9121</td>
</tr>
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</table>

4. Table 4.1 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>35</td>
<td>-.14</td>
<td>.43</td>
<td>.1117</td>
<td>.14833</td>
</tr>
<tr>
<td>SR</td>
<td>35</td>
<td>.09</td>
<td>.96</td>
<td>.4794</td>
<td>.26516</td>
</tr>
<tr>
<td>KOM</td>
<td>35</td>
<td>4.00</td>
<td>10.00</td>
<td>6.2571</td>
<td>1.63316</td>
</tr>
<tr>
<td>LEV</td>
<td>35</td>
<td>.18</td>
<td>.65</td>
<td>.4259</td>
<td>.13776</td>
</tr>
<tr>
<td>SIZE</td>
<td>35</td>
<td>29.30</td>
<td>32.16</td>
<td>30.7331</td>
<td>.72639</td>
</tr>
<tr>
<td>DA</td>
<td>35</td>
<td>-.04</td>
<td>.21</td>
<td>.0589</td>
<td>.05229</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. Test Normality Multivariate

Table 4.2.

One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual 1</th>
<th>Unstandardized Residual 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Normal Parameters(^{a,b})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0E-7</td>
<td>0E-7</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.11941165</td>
<td>.09673208</td>
</tr>
<tr>
<td>Most Extreme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>.095</td>
<td>.064</td>
</tr>
<tr>
<td>Positive</td>
<td>.095</td>
<td>.056</td>
</tr>
<tr>
<td>Negative</td>
<td>-.069</td>
<td>-.064</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>.561</td>
<td>.380</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.911</td>
<td>.999</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.
b. Calculated from data.

6. Multicollinearity Test Results

Table 4.5

Model 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>.909</td>
</tr>
<tr>
<td>KOM</td>
<td>.373</td>
</tr>
<tr>
<td>LEV</td>
<td>.397</td>
</tr>
<tr>
<td>SIZE</td>
<td>.871</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE
Table 4.6

Model 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KOM</td>
<td>.351</td>
<td></td>
<td>2.848</td>
</tr>
<tr>
<td>LEV</td>
<td>.360</td>
<td></td>
<td>2.781</td>
</tr>
<tr>
<td>SIZE</td>
<td>.863</td>
<td></td>
<td>1.159</td>
</tr>
<tr>
<td>Zscore: SR</td>
<td>.785</td>
<td></td>
<td>1.274</td>
</tr>
<tr>
<td>Zscore: DA</td>
<td>.805</td>
<td></td>
<td>1.242</td>
</tr>
<tr>
<td>SRDA</td>
<td>.805</td>
<td></td>
<td>1.243</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE

7. Autocorrelation Test Results

Table 4.7

Model 1

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.920</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SIZE, SR, LEV, KOM

b. Dependent Variable: ROE
Table 4.8
Model 2
Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.890</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SRDA, KOM, SIZE,
Zscore: SR, Zscore: DA, LEV
b. Dependent Variable: ROE

8. Heteroscedasticity Test Results (Glejser)

Table 4.9
Model 1

<table>
<thead>
<tr>
<th>Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>SR</td>
</tr>
<tr>
<td>KOM</td>
</tr>
<tr>
<td>LEV</td>
</tr>
<tr>
<td>SIZE</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ABRES1
Table 4.10
Model 2

Coefficients\(^a\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.017</td>
<td>.441</td>
<td></td>
<td>.038</td>
</tr>
<tr>
<td>KOM</td>
<td>.005</td>
<td>.010</td>
<td>.152</td>
<td>.519</td>
</tr>
<tr>
<td>LEV</td>
<td>-.052</td>
<td>.121</td>
<td>-.125</td>
<td>-.432</td>
</tr>
<tr>
<td>SIZE</td>
<td>.002</td>
<td>.015</td>
<td>.027</td>
<td>.144</td>
</tr>
<tr>
<td>Zscore: SR</td>
<td>.006</td>
<td>.011</td>
<td>.113</td>
<td>.575</td>
</tr>
<tr>
<td>Zscore: DA</td>
<td>-.010</td>
<td>.011</td>
<td>-.166</td>
<td>-.858</td>
</tr>
<tr>
<td>SRDA</td>
<td>-.018</td>
<td>.015</td>
<td>-.236</td>
<td>-1.218</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: ABRES2

9. Multiple Regression Analysis

Table 4.11 and 4.17-Model 1

Coefficients\(^a\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.065</td>
<td>.955</td>
<td></td>
<td>.068</td>
</tr>
<tr>
<td>SR</td>
<td>.194</td>
<td>.086</td>
<td>.347</td>
<td>2.249</td>
</tr>
<tr>
<td>KOM</td>
<td>-.063</td>
<td>.022</td>
<td>-.693</td>
<td>-2.880</td>
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<tr>
<td>LEV</td>
<td>-.746</td>
<td>.251</td>
<td>-.693</td>
<td>-2.971</td>
</tr>
<tr>
<td>SIZE</td>
<td>.022</td>
<td>.032</td>
<td>.106</td>
<td>.673</td>
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</tbody>
</table>

\(^a\) Dependent Variable: ROE
Table 4.12 and 4.18
Model 2

Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.020</td>
<td>.810</td>
<td></td>
<td>.024</td>
</tr>
<tr>
<td>KOM</td>
<td>-.048</td>
<td>.019</td>
<td>-.523</td>
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<tr>
<td>LEV</td>
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<td>-.455</td>
<td>-2.216</td>
</tr>
<tr>
<td>SIZE</td>
<td>.022</td>
<td>.027</td>
<td>.108</td>
<td>.813</td>
</tr>
<tr>
<td>Zscore: SR</td>
<td>.022</td>
<td>.021</td>
<td>.151</td>
<td>1.085</td>
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<td>Zscore: DA</td>
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<td>.020</td>
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<td>SRDA</td>
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<td>.027</td>
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</table>

a. Dependent Variable: ROE

10. Coefficient Determinant (R²)

Table 4.13 – Model 1

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.593a</td>
<td>.352</td>
<td>.266</td>
<td>.12712</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SIZE, LEV, SR, KOM

Table 4.14
Model 2

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.758a</td>
<td>.575</td>
<td>.484</td>
<td>.10659</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SRDA, KOM, SIZE, Zscore: DA, Zscore: SR, LEV
11. F Test

Table 4.15
Determination of Coefficient -Model 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.263</td>
<td>4</td>
<td>.066</td>
<td>4.073</td>
<td>.009</td>
</tr>
<tr>
<td>Residual</td>
<td>.485</td>
<td>30</td>
<td>.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.748</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE
b. Predictors: (Constant), SIZE, LEV, SR, KOM

Table 4.16 – Model 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.430</td>
<td>6</td>
<td>.072</td>
<td>6.307</td>
<td>.000</td>
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<tr>
<td>Residual</td>
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<td>.011</td>
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</tr>
<tr>
<td>Total</td>
<td>.748</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE
b. Predictors: (Constant), SRDA, KOM, SIZE, Zscore: DA, Zscore: SR, LEV