Analysis of Sustainability Report Disclosure, External Assurance, Environmental Performance, and Financial Access on Non-Financial Sector Companies

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Abstract: Economic growth in Indonesia is growing rapidly, this further exacerbates the current environmental conditions which are characterized by high levels of pollution, greenhouse gas effects, global warming and the threat of ecosystem extinction. The emergence of various environmental problems that occur today are caused by various sectors, one of which is the industrial sector. As the largest contributor to GDP in Indonesia, the industrial sector which is an IDX listing company has an obligation to have a sustainability report where this report describes economic, social and environmental activities. This sustainability report can provide information symmetry that can be considered by third parties, both financial institutions and investors. This sustainability report must have external quality and assurance so that it is not just a disclosure but can be a reliable sustainability report. Therefore, this study has an aim to analyze the relationship between the sustainability reports quality, the external assurance quality, usage of external assurance, environmental performance and financial access. The sample population are non-financial sector companies listed on the Indonesia Stock Exchange and PROPER during the 2014–2019 period. The analytical method used is panel data regression analysis using STATA. The result of this study found a significant strongly relationship between environmental performance and the quality of sustainability report disclosures on the company's financial access. In contrast, there is an insignificant effect between the quality of external assurance sustainability report disclosure on the financial access of the main sector and manufacturing companies.

Keywords: environmental performance, external assurance, financial access, sustainability report, STATA

INTRODUCTION

Environmental damage, global warming, pollution, and the threat of ecosystem extinction are sustainability issues that are currently being faced and have become a public concern. These environmental and social problems are caused by various sectors.

Indonesia as one of the G20 member countries that signed the Nationally Determined Contribution (NDC) document, has a commitment to reduce its emissions to 29% with its own efforts and to 41% with the support of international cooperation from business as usual by 2030 (Directorate General of PPI, 2019). Based on the 2020 Climate Transparency report, Greenhouse Gas (GHG) emissions in Indonesia were at the 581 $MtCO_2$ in 2019 where this emission level increased significantly compared to 1990. From the total greenhouse gas emissions, the largest contributor was the industrial sector at 37% as the largest contributor to Gross Domestic Product (GDP) in 2018 (BPS, 2019). Because of the industrial growth rapidly, environmental problems may also increase (Patnaik, 2018).

In line with Indonesia's commitment as a member of the G20, the Ministry of Environment and Forestry developed a program for increasing the awareness of corporate environmental management. This program is known as the Corporate Performance Rating Assessment Program in Environmental Management (PROPER). PROPER was created to provide an assessment for ecological management compliance as well as performance through incentive and disincentive instruments. Based on the 2013-2018 PROPER report, many companies in Indonesia have not met the minimum PROPER standard in blue and moreover, less than 10% of companies in Indonesia have carried out environmental management more than the standard or equivalent to the colors Green and Gold.

According to Banerjee et Al, 2019, his research appointed that companies was having good environmental management will rarely face obstacles in their finance Financial access is the company's ability to find the source of funding. A good financial access can reduce company's financial constraints. It became essential since it was used for companies to expand its operations, innovation, investment on production facilities and new staff recruitment (OECD, 2006).

Based on Bank Indonesia Regulation Number 14/15/PBI/2012 and Bank Indonesia Circular Letter Number 15/28/DPNP 2013, it is emphasized that the level of environmental management in a company is one of the indicators for successful in obtaining credit facilities. Thus, companies with good environmental performance will be easier to obtain credit facilities.

Moreover, as companies listed on IDX, based on the Law of the Republic of Indonesia Number 40 of 2007, it is stated that sustainability information has become an obligation. However, the report is still very limited and as a part of the annual report. It showed on the Financial Services Authority (OJK) report at the end of 2016 that only 49 IDX issuers having sustainability reports, of which most of these companies are in the non-financial sector (OJK, 2017)

Currently, Investors tend to look the effect of economic achievement and sustainability reports (Unruh et al., 2016). Martinez-Ferrero et al., 2016 highlighted that sustainability report can increase information symmetry which can foster investor confidence to make decisions on investment. Therefore, the sustainability reports must have quality. This is because disclosure alone does not enhance the reliability of the given data. García-Sánchez et al.(2019) found that a sustainability report is considered to have quality if the report meets specific guidelines for the preparation and presentation of information, has an external guarantor, and the quality of external assurance. Meanwhile, other research states that it can be recognize ad an excellent sustainability report if it has a report assurance (Simnett et al., 2009; Al-Shaer & Zaman, 2016) and meets the environmental and social measurement index model (Bachoo et al., 2013).

Therefore, a study on the analysis of the disclosure of sustainability reports quality, external assurance, environmental performance and financial access to non-financial sector companies is needed as consideration for the Financial Services Authority (OJK) and the Ministry of Environment & Forestry (KLHK) in regulating their regulations, relating to the implementation of sustainable finance in companies listed on the IDX. In addition, the research can produce an overview for companies regarding the essential of environmental performance and sustainability reports toward access on funding as well as consideration for investors.

LITERATURE REVIEW

Environmental Performance

Environmental performance is a company's performance that shows the company's awareness for the environment. Good environmental performance can increase legitimacy, reduce asymmetric and possible spending, which leads to raise capital supply and reducing the financing constraints (Liu et al., 2020). Several methods for valuing company's performance related to environment, that are including measuring company's green investment, the amount of emissions and pollution, ranking environmental performance, and counting words related to the environment in company reports. Meanwhile, According to ISO 140031 in Trumpp, et.al (2015) research, the company's environmental performance includes measurement of two aspects, such as EMP and EOP (Environmental Management Performance and Environmental Operational Performance).

In Indonesia, there are several indicators for measuring corporate environmental performance, one of which is PROPER. According to the Minister of Environment Regulation No. 3 of 2014 article 1 paragraph (1), PROPER is defined as an evaluation of the compliance and performance of the firm owner and/or activities for eliminating pollution and/or environmental degradation, managing hazardous and toxic waste. Results of the company's performance appraisal ratings are announced and published regularly to the public. Rating results can enhance or damage a company's reputation. PROPER defines a company's environmental performance rating which is divided into 5 color class, including gold, green, blue, red, and black.

Sustainability Report

Sustainability reports show actual sustainability performance (Papoutsi & Sodhi, 2020). Currently, Sustainability disclosure in Indonesia still depends on the willingness of every entrepreneur. In fact, the disclosure of sustainability reports can help companies to decide their objectives, value its performance, and plan to alter operational activities more sustain (GRI, 2013). In addition, the disclosure of sustainability reports also has the potential to reduce the company's financial constraints which include the inability to obtain loan, issue equity, dependence on bank credits, or the inadequacy of assets (Yao, Hong, & Lin, 2019).

The guidelines used as a standard for preparing sustainability reports by the majority of companies or organizations are the Global Reporting Initiatives (GRI) sustainability report guidelines. Sustainability report that is following GRI, consists of two standards, namely general standards and specific standards. In the G4 guidelines, a sustainability report has quality if it meets six principles (Balance, comparability, accuracy, timeliness, clarity, and reliability). The previous research from García-Sánchez et al. on 2019 also stated that a sustainability report has a good quality if it meets the requirement of GRI guidelines, and has specific information. Meanwhile, The studies of Al-Shaer & Zaman (2016) and Simnett et al. (2009) highlighted that the quality of these report based on the external assurance availability This is because the usage of external assurance for sustainability reports can improve the accuracy of the information quality as well as can reduce the risk of information discrepancies. Until now, the use of assurances in sustainability reports is still voluntary. The presence or absence of an external guarantee is influenced by report disclosure and the type of company industry (Cho et al., 2014).

Financial Access

Financial Access is very important for company's activities. Financial access will affect various company decisions such as company investment or divestment decisions, company capital structure choices, cash management policies, company export behavior, and company R&D intensity (Li, 2011). Based on Banerjee et al. (2019) research states that the ease of obtaining financial access is characterized by low financial constraints. Cheng et al. (2014) also defines better financial access can reduce company's financial constraints, where these constraints refer to market frictions that can prevent company funding. Better financial access is associated with increased stakeholder involvement and reduced information asymmetry.

There are several general scale-indicators that can be used to measure a company's financial access, including the KZ index by Kaplan & Zingales (1997), the WW index by Whited & Wu (2006) and the SA index by Hadlock & Pierce (2010). Same as previous research from García Sánchez et al. (2019), this study uses the KZ index to measure the company's financial access

RESEARCH METHODOLOGY

Research Model

Based on the previous research of Banerjee et al. and García-Sánchez et al. on 2019, the study proposes research model with dependent variable financial access (see Figure 1).

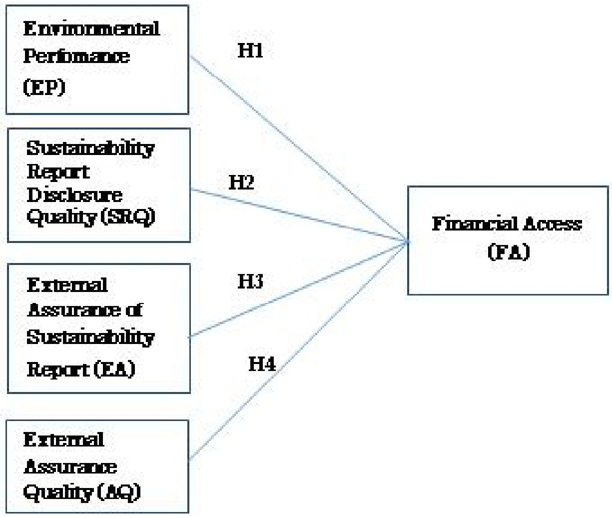

Figure 1 Research Model

The independent variables are environmental performance, sustainability report quality, and quality of external assurance. The dummy-independent variable is external assurance of sustainability reports.

Some indicator measurement variables were applied with adjustments according to the characteristics of the sample from previous studies.

Table 1 The Scale of Variable

Variable	Code	Measurement Scale-Indicator
Environmental performance	EP	PROPER ratings by Indonesian Ministry of Environment and Forestry
Sustainability report disclosure quality	SRQ	Based on *scoring level* by García-Sánchez et al (2019)
External assurance of sustainability report	EA	Valued as "1", if available, and "0" otherwise
Quality of external assurance	AQ	*Scoring context index* of assurance statement based on AA1000AS dan ISAE3000 standards
Financial Access	FA	KZ index

Based on the following research model, this study composes the hypothesis as follows:

H1: The Effect of Environmental Performance on Financial Access.

H2: The Effect of The Sustainability Report Disclosure Quality on Financial Access.

H3: The Effect of Sustainability Report External Assurance on Financial Access.

H4: The Effect of External Assurance Quality of Sustainability Reports on Financial Access.

Research Sample

The research population is non-financial sector companies listed on the Indonesia Stock Exchange and company performance improvement appraisal program or that is known as PROPER in Indonesia. The data was collected from the period 2014–2019.

The sample in this study was selected using the purposive data sampling. There was 501 observations that meets the criteria.

Data Processing

This research uses panel data regression analysis approach and STATA program to assist research data processing. In addition, this study also evaluates the suitability of the research model through the Chow and Hausman test.

RESULT

Panel Data Regression Data Analysis

From the results of testing model fit, The appropriate model for this research is the random effect model, therefore the panel data regression analysis using the following equation

$$FA_{it} = 1.714 - 0.326\ EP_{it} - 0.010\ SRQ_{it} - 0.042\ EA_{it} - 0.177\ AQ_{it} + e_{it}$$

F-Test

Based on the regression results of, it appears that the P-value is 0.005 d" 0.01. This value indicates that the variables of financial performance, quality of sustainability report disclosure, external assurance of sustainability reports, and quality of external assurance of sustainability reports simultaneously have a significant effect on financial access of non-financial sector companies from 2014 to 2019 at a 99% confidence level.

T-Test

The t-test could be done by comparing the probability value of each independent variable with the level of significance. Based on the table below (table 2), it can be seen that:

1. The EP variable, environmental performance, has a probability of $0.020 \leq 0.05$ indicating that the environmental performance variable has a positive and significant effect on financial access at a significance level of 5%.
2. The SRQ variable, sustainable report quality, has a probability of $0.008 \leq 0.01$ indicating that the second variable has a positive and significant effect on financial access at a significance level of 1%.
3. The EA variable, external assurance, has a probability of $0.972 \geq 0.10$ indicating that the third variable report has no effect on the financial access
4. Variable AQ, the quality of external assurance, has a probability of $0.880 \geq 0.10$ indicating that this Fourth variable has insignificant effect on financial access of non-financial sector companies.

Table 2 Panel Data Regression Result

Variable	Coeffisien	Std.Error	t-Statistic	Probability
EP	-0.326	0.140	-2.33	0.020**
SRQ	-0.010	0.004	-2.63	0.008***
EA	-0.042	1.216	-0.03	0.972
AQ	-0.177	1.271	-0.14	0.880

DISCUSSION

The Effect of Environmental Performance on Financial Access

The results of data processing using the Random Effect (REM) model showed that environmental performance has a significant positive effect on financial access for non-financial sector companies. This result corresponds to the last studies which found that the Firm's access to source of funding will be influenced by its performance on environment (Banerjee et. al., 2019 & Nguyen et al., 2018). Good environmental performance will attract stakeholders, especially external stakeholders, so it is believed to be able to improve stakeholder relationships and increase long-term profitability (Brulhrat et al., 2019). Stakeholders capture environmental performance information as positive information that leads to positive market performance outcomes (Yadav et. al, 2016). Companies with a good level of environmental performance will be responded positively by investors through fluctuations in stock prices, and will be responded positively by banks. In Bank Indonesia Regulation Number 14/15/PBI/ 2012 and Bank Indonesia Circular Letter Number 15/28/DPNP 2013, environmental management efforts by companies are one of the indicators for assessing the provision of credit facilities by banks.

On the contrary, poor environmental performance leads to lawsuits, which can increase the expenses and reduce the ability to catch new investor and debtor (Barth, M.E., & McNichols, 1994). In Indonesia, Law Number 32 of 2009 states that the the central and or regional government may apply administrative section to the owners of businesses and/or their business activities if environmental violations are found under supervision.

The Effect of The Sustainability Report Disclosure Quality on Financial Access

From the table 2, SRQ variable result show that it has a positive and significant effect on financial access for non-financial sector companies. This condition is supported by the research of García Sánchez et al.(2019) and Bachoo et. al. (2013). The better quality of sustainability disclosure, the higher the ability to increase company profits (Rezaee & Tuo, 2019; Mouselli et al., 2012). This information can influence investors' perceptions and behavior (Kothari & Short, 2009). Sustainability disclosure can also be a strategy for proactive environmental actions that are able to attract investors (Clarkson et al., 2013).

Recently, Investors prefer to invest in transparent entities because there is greater trust between managers and stakeholders, more accurate forecasting, and low information asymmetry (Jiang & Fu, 2019; Oncioiu, 2020). Disclosure on sustainability data allows investors to obtain more information and a positive correlation with operating cash flow and asset returns (Liang & Renneboog, 2016; Jiang & Fu, 2019; Yang & Yan, 2020; Oncioiu, 2020). This is because high disclosure quality also indicates a systematically higher equity price, either through the cost of capital or the expected future performance effects (Bachoo et. al., 2013).

The Effect of Sustainability Report External Assurance on Financial Access

The results showe that the availability external guarantee had a positive and insignificant effect on the financing access of non-financial sector companies. External assurance is to ensure that the quality of sustainability disclosures can strength the credibility and increase the trust and perception of information users (Pflugrath et al., 2011). Not only external assurance, internal assurance can also increase the credibility of disclosure (Mercer, 2004). The usage of report guarantees can increase shareholder confidence and others (Simnett et al., 2009). A possible explanation of the insignificant relationship was due to the absence of regulations requiring the use of external assurances for sustainability reports, and also most of the research objects did not use the external assurance. Most of them choose to use internal assurance rather than external assurance for sustainability reports, although several other studies have found that without independent or external assurance it will reduce the value of the company in the eyes of stakeholders (Lenssen et al., 2011). In contrast Haji & Anifowose (2016) found the the use of internal assurance can be cost efficient in increasing reliability, capability and trust of sustainability on non-financial sector. A possible explanation of the insignificant relationship is due to the absence of regulations requiring the use of external assurances for sustainability reports. Both inside and outside assurance had a benefit impact on the company's financial access.

The Effect of External Assurance Quality of Sustainability Reports on Financial Access

Based on above table (table 2), The result show a finding that the quality of the external guarantee of the sustainability report has a positive and not significant relationship with access to finance of non-financial sector companies. Same as previous research of García-Sánchez et al. (2019), the cause of the absence of a relationship is first, the lack of knowledge and experience from investors or other information users on understanding complex information from assurance reports even though there are regulations or guidelines to make good reports. Second, small number of companies in Indonesia that was using of external assurance for sustainability reports. Third, until now there has been any regulation that asking to use reliable outside assurance.

Companies domiciled in countries that have a shareholder orientation will pay more attention to and want reputable external assurance. In addition, companies in countries with market-driven sustainability practices will also pay more attention to and want excellent quality of external assurance, compared to companies whose sustainability practices are driven by institutions or the government (Kolk & Parego, 2010)

CONCLUSION

This research examines the effect of environmental performance, quality of disclosure of sustainability reports, external guarantees and quality of external guarantees on financial access for non-financial sector companies. The results imply that both environmental performance and quality of sustainability reports are important variables that have a strong & positive relationship to the company's financial access while the other two have a negative and insignificant relationship. The results obtained in this study can be a good reference for the government, companies that have and have not been registered in PROPER and also future research related to green finance sustainability. However, additional research is needed to further advance current understanding. The challenge for future studies is the selection of a sample population in which the criteria to be considered are requiring external assurance in the reliability report, this condition may affect the final results. In addition, it is necessary to conduct in-depth research by comparing two conditions from different sample criteria when the presence of an outside guarantor is mandatory or not. Therefore, it is advisable to repeat the investigation with the selection criteria based on the obligation to have external guarantees on the report, to ensure the findings can provide more reliable insight.

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