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The Effect of Profitability, Leverage, and Company Size on Sustainability Report Disclosure of Manufacturing Companies in the Non-Cyclical Consumer Sector on the Indonesia Stock Exchange

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ABSTRACT

This study was conducted to examine the key elements influencing the impact of profitability, leverage, and company size on the level of sustainability report disclosure in manufacturing companies listed on the Indonesia Stock Exchange and categorized as companies in the Consumer Non-Cyclicals sector. Sustainability reports are a crucial element in business activities because they reflect a company's transparency in the context of the social, economic, and environmental consequences arising from its operational activities. In this study, profitability is measured by return on assets (ROA), leverage is calculated using the debt to equity ratio (DER), while company size is determined by total assets owned. The study was conducted using a panel data regression approach, using the annual reports of issuers listed on the Indonesia Stock Exchange as data sources for the period 2019 to 2023. This study examined 40 issuers in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (IDX) during that period, with 11 companies selected as the research sample. The analysis findings show that profitability levels have a significant negative impact on the level of sustainability report disclosure, while leverage and company size are proven to have a significant positive impact on the level of disclosure. These findings indicate that internal financial factors such as profitability are not always the primary drivers of sustainability information disclosure. Instead, external pressures from creditors, investors, and the company's business scale have a greater influence on companies' drive to increase transparency through sustainability reporting.

Keywords *: Profitability; Leverage; Company Size; Sustainability Report; Consumer Non-Cyclicals Sector; Indonesian Stock Exchange.*

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INTRODUCTION

The preparation and submission of sustainability reports is now crucial for businesses amidst globalization and increased consideration of environmental, social, and corporate governance (ESG) elements. This reporting serves not only as a means of communication with stakeholders but also as a demonstration of a company's commitment to implementing sustainability principles. In Indonesia, attention to sustainability has increased, particularly for business entities formally listed on the Indonesia Stock Exchange (IDX), many of which have begun to publish sustainability information as a component of their business strategies.

Although this sector plays a key role in supporting the economy, its contribution tends to decline throughout the 2019–2022 period. In 2019, the manufacturing industry contributed 19.70 percent to Indonesia's GDP. Subsequently, this sector's contribution continued to show a downward trend, reaching 18.34 percent in 2022. However, the manufacturing industry's contribution increased in 2023, reaching 18.67 percent, compared to 18.34 percent the previous year. (www.bps.go.id).

The global health crisis caused by Covid-19, which began in early 2020, has resulted in significant and profound losses across various sectors, including non-cyclical consumer goods. In this global health emergency, people are facing drastic changes in consumption patterns, preferences, and shopping behavior. Social restrictions and lockdown policies implemented by many countries are forcing consumers to seek alternative ways to meet their food needs.

This study aimed to examine the extent to which the level of sustainability report disclosure in manufacturing companies is influenced by profitability, leverage, and size of manufacturing companies in the Consumer Non-Cyclicals subsector listed on the Indonesia Stock Exchange during the 2019–2023 period. It is anticipated that a better understanding of these components will provide insights for relevant or interested parties, including issuer managers, investors, and policymakers, regarding the importance of sustainability reports in creating long-term value and business sustainability.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), states that a company is an entity that interacts with other stakeholders, both internal and external. Stakeholder Theory is one of the basic theories often used in sustainability reporting research. Disclosure in a sustainability report serves as a tool for interacting with stakeholders. This disclosure is expected to meet the needs of stakeholders and maintain good relationships with them (Suharti, 2024).

Legitimacy Theory

Legitimacy is a strategic factor for companies in developing the company in the future. Dowling and Pfeffer (1975) stated that legitimacy is a crucial thing for organizations, the limitations imposed by social norms and values and the reaction to these limitations encourage the importance of analyzing organizational behavior with attention to the environment. Companies can lose their license to operate in society if they violate the norms and expectations of society. Therefore, according to this theory, it can be interpreted that the existence of a company can be accepted by society if the company can adjust to the values of society. Conversely, if the company cannot adjust to the values of society and even has a negative impact on society, the company's existence and sustainability can be threatened.

Agency Theory

Agency theory explains the relationship between the owner (principal) or company owner and the manager, or agent (Jensen & Meckling, 1976). Management can signal the owner about the company's future sustainability, while the principal can continue to monitor business activities and reduce agency costs (Octoviany, 2020).

Profitability

Profitability is a measure of how well management functions and how efficiently a company generates profits. Profitability is a form of responsibility that a company must fulfill to its stakeholders (Karlina et al., 2019). Profitability is a company's ability to generate profits relative to its revenue, assets, or equity. According to Kasmir (2019), profitability is a ratio used to measure a company's ability to generate profits.

Leverage

Leverage measures the extent to which a company is financed by its debt. According to Kasmir (2019), leverage is a ratio used to assess the extent to which a company's assets are financed by debt, meaning the ratio between the company's liabilities and its assets.

Company Size

Company size, commonly referred to as size, can be used to describe the size of a company, which significantly influences the capital used for its operations (Meutia & Titik, 2019). The value of a company's assets determines its size.

As a company's size increases, the potential for disclosing more extensive information through sustainability reports also increases (Putri et al., 2022). The total assets a company owns that can be used to run its operations is referred to as company size.

Sustainability Report

According to the Global Reporting Initiative (GRI), sustainability reporting is the practice of measuring, disclosing, and accounting for an organization's performance toward achieving sustainable development goals to internal and external stakeholders. A sustainability report must describe its economic, social, and environmental impacts, and must comply with the reporting framework established by the GRI. While there are no regulations requiring companies or organizations to prepare sustainability reports, publication of sustainability reports is still voluntary in Indonesia.

METHOD

Population and Sample

The population in this study is 40 companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (IDX). This study uses annual report and sustainability report data from manufacturing companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange for the 2019-2023 period. The sampling technique used was purposive sampling, where subjects were selected based on predetermined criteria.

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Data Analysis Method

This research method uses unbalanced panel data. An unbalanced panel is a situation where the number of observations differs between panel members (Ghozali & Ratmono, 2017: 198). Unbalanced panel data is a situation where cross-sectional units have an unequal number of time series observations. The data processing tool used in this study is the Eviews 12 application.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Model Selection Test

Tabel 1. Model Selection Test

	SR	ROA	DER	SIZE
Mean	0.274705	11.43513	0.695547	29.28823
Median	0.252747	8.843824	0.696512	28.70330
Maximum	0.494505	60.71678	2.512277	32.85992
Minimum	0.133957	-9.535671	-2.127341	26.24650
Std. Dev.	0.090814	12.49365	0.665069	1.826443
Observations	55	55	55	55

Source: Eviews 12 data processing results

a. Chow Test

Tabel 2. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.399771	(11,40)	0.0003
Cross-section Chi-square	43.613021	11	0.0000

Source: Eviews 12 data processing results

Based on the results of the data processing above, it is known that the cross section probability F is 0.0003, so H0 is rejected, and the selected model is the Fixed Effect Model (FEM).

b. Hausman Test

Tabel 3. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.285393	3	0.0433

Source: Eviews 12 data processing results

Based on the data processing results above, the cross-section probability is 0.0433, resulting in H0 being accepted and H1 being rejected. This indicates that the selected regression model is the Fixed Effect Model (FEM).

Classical Assumption Test

a. Heteroscedasticity Test

Tabel 4. Heteroscedasticity Test

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.820919	Prob. F(9,44)	0.0913
Obs*R-squared	14.65461	Prob. Chi-Square(9)	0.1009
Scaled explained SS	15.44331	Prob. Chi-Square(9)	0.0795

Source: Eviews 12 data processing results

Based on the results of the White test in table 4, it shows that this model does not experience heteroscedasticity because the chi-square probability value of 0.1009 is greater than the significance level of 0.05.

b. Autocorrelation Test

Tabel 5. Autocorelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	5.631243	Prob. F(2,48)	0.1164
Obs*R-squared	10.26238	Prob. Chi-Square(2)	0.1159

Source: Eviews 12 data processing results

Based on the results of data processing in table 5, the Prob.Obs*R-squared value is 0.1159 > 0.05, which means that there is no autocorrelation problem.

Hypothesis Testing

a. Coefficient of Determination Test R^2

Tabel 6. R^2 Test

R-squared	0.736447
Adjusted R-squared	0.644204

Source: Eviews 12 data processing results

Overall, the regression analysis on Adjusted R-squared showed a result of 0.6442. This indicates that the Sustainability Report can be explained as much as 64.42% by several variables: Profitability (ROA), Leverage (DER), and Company Size, while the remaining 35.58% is influenced by other variables not included in this study.

b. Partial Test (t-Statistic Test)

Tabel 7. T-Statistic Test

Dependent Variable: SR
Method: Panel Least Squares
Date: 09/27/25 Time: 18:52
Sample: 2019 2023
Periods included: 5
Cross-sections included: 12
Total panel (unbalanced) observations: 55

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.444282	0.157243	-2.825455	0.0067
ROA	-0.001627	0.000801	-2.032273	0.0473
DER	0.035020	0.015046	2.327601	0.0239
SIZE	0.024352	0.005337	4.562947	0.0000

Source: Eviews 12 data processing results

$$SR = (-0.444282) - 0.001627\ ROA + 0.035020\ DER + 0.024352\ SIZE$$

Discussion

The Effect of Profitability (ROA) on Sustainability Reports

The ROA variable (X1) has a t-statistic value of -2.03 with a probability value of 0.0473 (0.0473 < 0.05), which is less than the significance level of 0.05. This indicates that the profitability variable has a significant negative effect on sustainability reports. Therefore, hypothesis H1 is accepted.

The Effect of Leverage (DER) on Sustainability Reports

The DER variable (X2) has a t-statistic value of 2.32 with a probability value of 0.0239 (0.0239 < 0.05), which is less than 0.05. This indicates that the leverage variable has a significant positive effect. Therefore, hypothesis H2 is accepted.

The Effect of Company Size (SIZE) on Sustainability Reports

The SIZE variable (X3) has a t-statistic value of 0.024 with a probability value of 0.0000 (0.0000 < 0.05), which is less than the significance level of 0.05, thus H3 is accepted. A positive t-value indicates a one-way relationship between size and sustainability reports, meaning that each increase in SIZE will be followed by an increase in Sustainability Reports.

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the discussion, the researcher drew several conclusions that:

1. Profitability has a significant negative effect on sustainability report disclosure. This means that high profitability does not necessarily encourage businesses to increase sustainability disclosure. This finding suggests that highly profitable businesses focus more on achieving profits than on disclosing social and environmental elements.
2. Leverage has a significant positive effect on sustainability reporting. Companies with high levels of financial liabilities are motivated to disclose more information due to accountability demands from creditors and investors. This demonstrates that external pressure can influence

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businesses to be more transparent in communicating their social and environmental responsibilities.
3. Company size has a significant positive impact on sustainability reporting. Larger issuers typically possess greater resource strength and, therefore, tend to provide more extensive disclosure. This finding is consistent with legitimacy and stakeholder theory, which demonstrates the crucial role of large companies in meeting stakeholder expectations through transparency of sustainability information.

Suggestions
1. Companies with high profitability should not only focus on profits but also increase transparency of sustainability information. Profits can be allocated to support social, environmental, and sustainable governance programs, thereby enhancing the company's legitimacy in the public eye.
2. Companies with high levels of leverage are advised to utilize sustainability reports as a means of communication with creditors and investors, in order to strengthen trust and demonstrate accountability in managing financial risks.
3. Large companies need to utilize their resources and capabilities to improve the quality and completeness of sustainability report disclosures in accordance with international standards (e.g., GRI Standards).
4. For future researchers, it is hoped that they will expand the scope of the data, either by increasing the number of company samples, extending the observation period, or considering other variables such as good corporate governance, institutional ownership, or stakeholder pressure that may also influence sustainability report disclosure.
5. Investors are advised to focus not only on a company's financial performance but also on the company's level of transparency and commitment to sustainability reporting. Sustainability reports can be an important indicator in assessing a company's social responsibility, long-term risk mitigation, and the potential for business sustainability in the face of increasingly complex environmental and social issues.

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