

# CHAPTER 1

## INTRODUCTION

### 1.1. Research Background

Sustainability report released by companies to show how their business activities could give impact to the environment, social and economy. Both organization's value, governance model and how committed an organization to their goals also shown by this report.

Since year 2000, sustainability report has been practiced. Although the growth in numbers of company which implemented it can be considered weak, from top 100 firms who are listed there are only 30% organization which already published sustainability report (Ernst & Young 2016). From the beginning year 2000 until 2017, there are 97 companies that published sustainability report. Some of them create sustainability report both only citing or fully follows Global Reporting Index (GRI) standard. Actually, there are no regulation from government about sustainability report, until OJK (Otoritas Jasa Keuangan) releases POJK no.51 at 27<sup>th</sup> July 2017 as the first regulation about sustainability report in Indonesia.

According to Country Program Manager GRI in Indonesia, Bob Eko Kurniawan (2017) says that investors at present, especially on the international side have a high demand for sustainability related information from a company

They would like to invest their money after knowing that a company can sustain their business for a long time.

Following the demand that already stated on the above and the increased disclosures released by company, investors should responded accordingly. This also indicates that company who publish sustainability report hopes that there are some positive feedback from the market too. Market usually react on every information released. Not just normal information related about the company's business, but also how well and accepted the activities done by them from social point of view. Information is called valuable when it could push some reaction from the market, it can be seen from the abnormal return. Abnormal return here is one of the indicator which can be used to see the condition of the market (Jogiyanto 2009).

Actually, any kind of movement in abnormal return is considered good since unending increase of price also leads to inflation or larger price drop if company fails to achieve their goals. But, if sustainability report really is considered by investors when they make their investment decisions, then increased purchases would follows. This phenomenon could also bring sudden increase in stock prices which exceed investor expectation. Lastly, sustainability report would give either additional or less value for the investors and this is how abnormal return created.

With that in mind, Indonesian company should move their aim to the better one. Not just striving for more profit, but also co-exist with both the

environment and social aspect around them. Although information shows that in sustainability case, Indonesia is not at a worrying state, but it still lose to some big countries. In order to achieve higher trust from international and national investor, sustainability disclosure should be done in accordance to standards and shows a good and complete information about the company.

Many research about sustainability disclosure already done in Indonesia, and some of them relate it to the company's performance. Result from that research shows that it actually have a great impact to the companies' performance positively, not just that, but the higher the disclosure aspects leads to improved performance in markets according to Caesaria and Basuki (2017). Market performance improvement on this research is found out using the market price ratio from Tobin-Q. It show whether the market value could reflect the firm's assets. Another research done by Kurniawan, Sofyani and Rahmawati (2018), sustainability report impact positively to firm's value. Relevance of the financial statement also affected by information inside the sustainability report according to Sutopo, Kot, Adiati and Ardila (2018).

On market's movement side, there is research done by Plautilda (2012) that show how Corporate Social Responsibility (CSR) could give impact to market reaction. Christiawan and Cheng (2011) also did the same research but connecting those information directly to the abnormal return. That research also has a positive results. Means that non-financial information has its own place on one of the abnormal return determinant. Sustainability report is

While providing how a company's activities affect their surrounding environment, it also provides information about what has been done by the company to achieve and maintain their goals.

After reading those research, researcher interested in finding the result from different perspective. Not from increased company's performance and value, but how the abnormal return reacts to sustainability disclosure. As explained before, abnormal return happen when there are some reaction after some information released to the public. Sustainability report is one of those information, and if the demand is correct, then investors would give positive reaction to good sustainability reports. Researcher will conduct new research with title "**The effect of Sustainability Report Disclosure on Abnormal in Indonesian Listed Firms**". Control variable like Price to Book ratio (P/B ratio) will also be used in this research to assess the relationship between two other variables.

## **1.2. Research Problem**

Sustainability report is high in demand right now, investors need to know the longevity of a certain business before they put their money in. Not just investors, even the community around where the site where companies operates also need to know how they manage their business, whether they prioritize environment and social aspects or not. It also helps the company itself to maintain their steps to approach their goals.

The problem is, although some research already done and they did show that sustainability report could improve both their performance and market value, a big portion of Indonesian companies not yet taken any interest on sustainability report. Thus, researcher will try to find more evidence from different perspective, that if the abnormal return could be affected by sustainability report disclosure or not.

### **1.3. Research Objective**

This research try to investigate:

- Whether sustainability report has an impact on abnormal return.
- How significant the impact of sustainability report on abnormal return.

### **1.4. Research Contribution**

Researcher hope that the result of this research could show how big the impact of sustainability report to abnormal return by using the standard which is released by Global Reporting Index. Also for the need of:

#### **1. Theoretical Contribution**

The result from this research aims not just to provide new knowledge, but also give opportunities for other researcher to create more topics that could solve problem and benefit this country in the economics world.

## 2. Practical Contribution

### a. Academic

Result provided from this research hopefully could encourage another researcher to extend their point of view.

### b. Company

This research can help to increase the awareness of how much needed sustainability report right now.

### c. Investor

On investor side, the result of this research could be used as a guidelines for their investment decisions, since many of the investor also demand sustainability aspect of a company.

## 1.5. Writing Structure

This research was prepared systematically as the following:

### **CHAPTER I                      INTRODUCTION**

Chapter I is an introduction in the preparation of the research which consist of background, research problem, research objectives, research contribution and writing structure.

## **CHAPTER II**

### **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

Chapter II contains theoretical framework and previous literature review used to support the critical thinking and used as references to construct the framework and hypothesis development.

## **CHAPTER III**

### **RESEARCH METHOD**

Chapter III contains of data related to the research, it includes population and sample, sample criteria, data collection method, measurement variable, data analysis techniques, and hypothesis testing method.

## **CHAPTER IV**

### **DATA ANALYSIS AND DISCUSSION**

Chapter IV contains the result and discussion of the research by observing the data processing result and analysis. This chapter provides information whether the hypothesis meet the criteria, accepted or rejected.

## **CHAPTER V**

### **CONCLUSION**

Chapter V contains conclusion of the research, limitation and suggestion for future research.