Enrichment: Journal of Management, 14 (5) (2024)

Published by: Instiute of Computer Science (IOCS)

Enrichment: Journal of Management

Journal homepage: www.enrichment.iocspublisher.org

Effect of sustainability accounting and reporting on financial performance of firms in PT pertamina Persero

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ARTICLE INFO

Article history:

Received Dec 03, 2024
Revise Dec 17, 2024
Accepted Dec 30, 2024

Keywords:

Accounting;
Global Reporting;
Initiative (GRI) Sustainability;
Sustainability Reporting;
Sustainability Report
Disclousure Index.

ABSTRACT

Conventional financial report has been criticized for only representing operational-related matters but not including and explaining multiple dimensions of the corporation's value. The above-mentioned gives rise to the idea of sustainable reporting where it reflects the company's effort and concern about environment protection and inter-generation equality. The research aims to identify the significant relationship between sustainability reporting represented by the environment, social, and government (ESG); and firm's performance in Indonesian Firms (Pertamina). The data is taken from Pertamina sustainability reporting and official websites. As a state-owned company, Pertamina should provide more consistent and clear information on its sustainability investments and expenses. It should be reflected in its annual report and sustainability report. The research type that will be used in this study is quantitative research. The research object is one of the Indonesian state-owned companies, namely PT Pertamina Persero. This study analyses The Annual Financial Statement and Sustainability Reporting of PT Pertamina Persero Indonesia in 2013-2020 as the research object. The period has been chosen because PT Pertamina started to use GRI Index (G4) started from the year of 2013. Variable used in this research are Sustainability Report Disclosure Index (SRDI), expenses, and investment contributes to the company's sustainability effort as independent variables. Dependent variables consist of financial ratios, such as liquidity, profitability, and solvency ratios. Finally, this study concludes that there is a positive relationship between investment for sustainability and SRDI, between sustainability investment and firm performance, between the company's sustainability expenses with ROE, and between SRDI and financial ratios of PT Pertamina Persero.

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INTRODUCTION

The world today is still trying to survive in the middle of the COVID-19 pandemic. This situation makes institutions, businesses, and governance has experienced a stress test that can expose the fragility innate in many business practices and constructs. It is the right time for institutions and leaders to rethink their core business, strategy, reimagine the vision for success, and try to find new possibilities for optimization and robustness to survive. On the other hand, firms all over the world are also being challenged to continuously improve the financial reportage to include detailed matters related to business operations and the firm's contributions to preserving the environment(Gambetta et al., 2019).

They tend to have some level of impact on the society and environment where they exist. This impact will incline as the business grows because the nature of the business itself is to have a more competitive advantage over its competitors, so the business will continuously expand and become more industrious day by day. This industrialization will endanger its surroundings by causing environmental degradation, deforestation, air and water pollution (Utile, 2016). The firms have to be responsible for those environments and social issues as an impact of their business activities. These responsibilities are reflected in disclosure made by business entities known as corporate social and environmental responsibility reporting (Nnaemeka et al., 2017).

The above-mentioned gives rise to the idea of sustainable reporting where it reflects the company's effort and concern about environment protection and inter-generation equality. Based on Loh et al. (2017), by considering factors beyond economic, strategy, and operational factors, sustainability reporting can help to show transparency, strengthen risk management, and build the company image of their stakeholders. Stakeholders include the employees, customers, vendors, lenders, government, and local communities.

Sustainable reporting is linked to triple bottom line (TPL) reporting and GRI (Global Reporting Initiatives) reporting guidelines (Uwuigbe, 2018). Based on (Aras et al., 2018) The Tripple Bottom Line was first used by John Elkington (1997) and its concept shows that the indicators of corporate sustainability consist of three dimensions which are economic, environmental, and social. The economic dimension of the triple bottom line (TBL) includes profit-making, economic prosperity, gaining competitive advantage, and sustaining the overall value of a business. The environmental dimension refers to factors associated with environmental quality such as global warming, pollution, climate change, and depletion of the ozone layer. Social sustainability is aimed to create social improvement from many perspectives such as health, safety, social well-being, employment opportunities, charity, and organizational behavior (Aras et al., 2018). In the case of Indonesia and most developing countries, actualizing sustainable development is a real challenge considering limited financial resources, the huge technological gap with developed countries, and current methods of production(Yakovlev & Nikulina, 2019). It requires a big amount of investments to build new industries, clean and efficient technology, new job opportunities while reducing greenhouse gas (GHG), fossil fuel, and natural resource-intensive.

This study emphasized how sustainable accounting can affect the financial performance of a company in Indonesia's manufacturing sectors. This research is relevant because manufacturing sectors have been the backbone of the economy in Indonesia. It grows rapidly where the contribution of the manufacturing sector to GDP was only around 13.43% in 1983 and now it has risen to approximately 19.88% in 2020 (World Bank, 2020). This data proves that the manufacturing sector is vital for Indonesia's economy. Consequently, its contribution to emission is also higher. Niemann & Hoppe (2018), stated that an organization that implements sustainability practice will have increased incentives. Therefore, many researchers are interested in investigating this field. However, most empirical studies about sustainability accounting or reporting have focused on developed countries. Hence, having this research in the case of Indonesia as one of the developing countries is crucial.

The period has been chosen because PT Pertamina started to use GRI Index (G4) started from the year of 2013. This company has been chosen because Pertamina is the largest state-owned company (BUMN) in Indonesia in terms of revenue and profit. As a big company that operates in society, Pertamina is responsible to contribute to preserving the environment and building community. This can be interesting to know and analyze how its role in saving the environment and society can affect its performance.

The research type that will be used in this study is quantitative research. The research object is one of the Indonesian state-owned companies, namely PT Pertamina Persero. This study analyses The Annual Financial Statement and Sustainability Reporting of PT Pertamina Persero Indonesia in 2013-2020 as the research object. The period has been chosen because PT Pertamina started to use GRI Index (G4) started from the year of 2013. Variable used in this research are Sustainability Report Disclosure Index (SRDI), expenses, and investment contributes to the company's sustainability effort as independent variables. Dependent variables consist of financial ratios, such as liquidity, profitability, and solvency ratios.

RESEARCH METHOD

The research aims to identify the significant relationship between sustainability reporting represented by the environment, social, and government (ESG); and firm's performance in Indonesian Firms (Pertamina). The data is taken from Pertamina sustainability reporting and official websites. The research type that will be used in this study is quantitative research.Y. Yang et al. (2020) explained quantitative research method uses data in the form of numbers. Quantitative research is emphasized on objective assumptions. It makes the researcher remain as neutral as possible and avoid human bias (Johnsaon & Christensen, 2014). According to Kumar & Ranjit (2011), study design in quantitative research based on its nature of investigation can be classified as experimental, non-experimental, and quasi- or semi-experimental. This study will use a non-experimental approach because the researcher will just observe and analyze the data starts from the effect(s) or outcome(s) and attempt to determine causation. Johnsaon & Christensen (2014) further explain that one type of non-experimental research is called causal-comparative research. It studies the relationship between one or more categorical independent variables and one or more quantitative dependent variables.

This study examines and analyses only one company so it is also recognized as a case study research design. Even though a case study is dominantly a qualitative study design but it is also prevalent in quantitative research. The case study provides an in-depth understanding and comprehensive overview of a case. This research uses The Annual Financial Statement and Sustainability Reporting of PT Pertamina Persero Indonesia in 2013-2020 as the research object. The period has been chosen because PT Pertamina started to use GRI Index (G4) started from the year of 2013. This company has been chosen because Pertamina is the largest state-owned company (BUMN) in Indonesia in terms of revenue and profit. As a big company that operates in society, Pertamina is responsible to contribute to preserving the environment and building community. This can be interesting to know and analyze how its role in saving the environment and society can affect its performance.

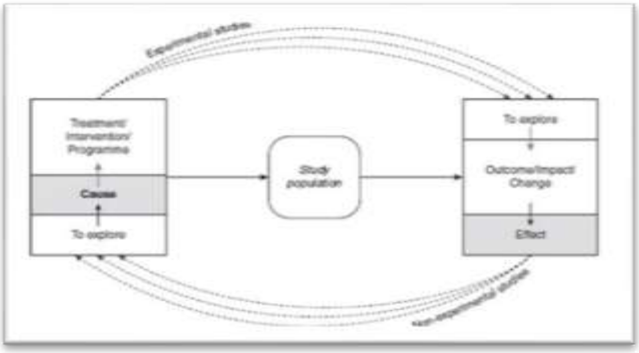

Figure 1. Experimental and Non-Experimental Studies

Nonexperimental quantitative research consists of these three forms: descriptive, predictive, and explanatory research (Johnsaon & Christensen, 2014). This study uses descriptive research where it intends to provide an accurate description or picture of the situation or phenomenon. This study examines and analyses only one company so it is also recognized as a case study research design. Even though a case study is dominantly a qualitative study design but it is also prevalent in quantitative research. The case study provides an in-depth understanding and comprehensive overview of a case.

RESULTS AND DISCUSSIONS

The scale of Pertamina

Pertamina develops solar cells, biodiesel, geothermal, green energy station, lithium-ion battery, and others. The firm was the third-largest crude oil producer in Indonesia in 2020 after ExxonMobil's Mobil Cepu Ltd and US-based Chevron Pacific Indonesia.

Table 1. The scale of pertamina by indicators

Indicator	Unit	2020	2019
Total Employees	People	15,351	15,297
Revenue	USD Million	41,469	54,793
Total Asset			
Total Liabilities	USD Million	37,889	35,991
Total Equity	USD Million	31,254	31,307
Total Shares Owned by Government	%	100	100
Daily Production			
Oil	MBOPD	408.47	413.68
Gas	MMSCFD	2,634.48	2,822.46
Geothermal Power Plant	GWh	4,618.27	4,292.16

Source: Sustainability Report of PT Pertamina (Persero) 2020

Capital goods investment

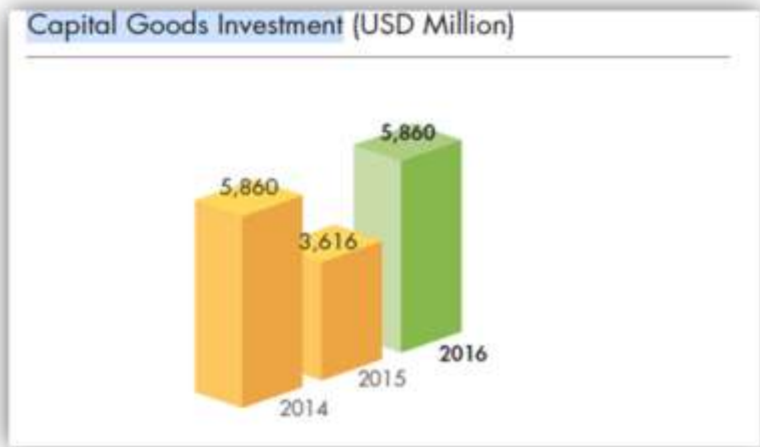

Figure 2. Capital goods investment

In 2017 Pertamina's Social Investment, namely CSR and SMEPP (Small and Medium Partnership Program) was US$ 32 million which lower than 2016 amounted to US$ 36 million. In this year, three Geothermal Power Plant (PLTP), namely Kamojang, Lahendong, and Ulu Belu, had been fully operated and managed to achieve emission reduction of 1.511.257,30 tons of CO2e. The investment put into this project was US$ 711,36 million.

Pertamina's Program

In 2018, Pertamina invested in employee training and education of Rp646 billion which made an increase of 34% compared to the previous year only Rp480 billion. For the social investment in CSR and SMEPP, Pertamina spent US$31 million this year. However, total social investment in 2019 was declined to US$19 million. At the end of 2019, there had been several New Renewable Energy developed by Pertamina. The company invested US$3,5 billion for building a coal gasification project in South Sumatra and it was targeted to operate in 2023.

In 2020, the social investment (CSR+SMEPP) was US$31 million. It increased by US$2 million compared to the previous year contributing only US$ 19 million. Pertamina allocated an investment of approximately US$6,96 billion for New and Renewable Energy (NRE) development up to 2026. Moreover, Pertamina also supported the effort to achieve SDG 4, Quality Education through its program, "Smart Pertamina". The fund realized in 2020 for this program was Rp 33,4 billion. Pertamina also distributed loans and fostered Partnership Programs for small businesses worth Rp21,66 billion for 237 small businesses. This fund was addressed for the tourism sector in 5 Super Priority Tourism Destinations (DPSP), facilitated by the Coordinating Ministry for Maritime Affairs and Investment.

Table 2. Investment in sustainability projects (in million USD)

	2013	2014	2015	2016	2017	2018	2019	2020
Investment for sustainability	$ 243	$ 4.944	$ 500	$ 1.825	$ 1.279	$ 576	$ 4.019	$ 35
Total Investment	$ 6.347	$ 5.903	$ 3.544	$ 2.337	$ 2.827	$ 17.592	$ 4.294	$ 4.170
Ratio	4%	84%	14%	78%	45%	3%	94%	1%

Pertamina's CSR programs are organized under the "Pertamina Sobat Bumi" program. The target of this program was the communities around the company's operational sites impacted by Company's business activities. In 2013, total disbursement funding for Pertamina Sobat Bumi was more than Rp244 billion. In addition, Pertamina also spent Rp18,3 billion to cover the expenses of small businesses' activities such as national-level trade exhibitions for product promotion, capacity building seminars and workshops, and other related activities. By the end of 2013, total Partnership Program disbursement amounted to Rp122,02 billion.

In 2014, the realization of the Partnership Program with SME reached US$3,53 million, for SME Development Fund was US$10,99 million, and for Community Involvement and Development achieved US$12,16 million. In 2015, the SME Development expenses or a grant to the partners were approximately US$16 million. In 2016, business efficiency in the upstream sector was done through optimization of operating expenses that generate efficiency amounted to US$437 million. In 2017, Pertamina's CSR activities funding came from the Company's fund allocation of operating expense (OPEX) with a maximum allocation of 1% calculated from the previous year's net income. Within the years 2018 and 2019, there is not enough information about the expense of the company's sustainable activities.

At the beginning of 2020, Pertamina's performance was challenged with the effects of the Covid-19 pandemic, such as decreased sales, rupiah fluctuations, and a decline in the world oil prices. These conditions triggered Pertamina to perform several efforts to maintain its business performance, including maximizing the efficiency of operational expenditure (OPEX) up to 30% and scale of priority in capital expenditure (CAPEX) to be 23% more efficient that will lead Pertamina to save US$4,7 billion.

Sustainability report disclosure index (SRDI) 2013-2020

Table 3. Sustainability report disclosure index (SRDI)

G4 Disclosure	2013	2014	2015	2016	2017	2018	2019	2020
Total Srdi Env(Disclosed)	16	12	4	5	4	11	22	22
Total Srdi Soc (Disclosed)	25	19	7	13	5	8	16	22
Total Srdi Gov (Disclosed)	1	22	1	2	1	1	4	22
Total Srdi Env (Expected To Be Disclosed)	34	34	34	34	34	34	34	34
Total Srdi Soc (Expected To Be Disclosed)	48	48	48	48	48	48	48	48
Total Srdi Gov (Expected To Be Disclosed)	22	22	22	22	22	22	22	22
Score Srdi Env	47%	35%	12%	15%	12%	32%	65%	65%
Score Srdi Soc	52%	40%	15%	27%	10%	17%	33%	46%
Score Srdi Gov	5%	100%	5%	9%	5%	5%	18%	100%
Total Sdri (Disclosed)	42	53	12	20	10	20	42	66
Total Gri-G4 (Expected To Be Disclosed)	104	104	104	104	104	104	104	104
Score Srdi (Esg)	40%	51%	12%	19%	10%	19%	40%	63%

Environmental aspects disclosures trend were continuously decreasing from 2013 until 2017 and started to incline in 2018. It had the highest index of disclosure for 65% in 2019 and stay the same in the next year. Social aspects disclosures index had almost the same pattern with environmental aspect disclosure but in 2016 it performed a quite significant incline for approximately 13% before making a downturn again in 2017.

The biggest score in this aspect happened in 2013 for 53%. The disclosure of the Governance aspect was very low compared to the Environmental and Social disclosure. However, in 2014 and 2020, The Governance disclosure index was the highest among the other aspects and it managed to disclose all of the Governance aspect indicators. For the overall SRDI, the pattern was the same where it inclined from 2013 until 2014 then made a downturn until 2017 before finally rising again in 2018 until 2020. The highest score was in 2020 for 63% while the lowest one was in 2017 for just 10% disclosure.

Company Ratio Analysis

Table 4. Liquidity ratio from 2013-2020

Liquidity	2013	2014	2015	2016	2017	2018	2019	2020
Current Ratio	1,46	1,49	1,68	2,00	1,95	1,66	1,89	2,16
Quick Ratio	0,91	0,98	1,16	1,42	1,33	1,21	1,41	1,70
AR Turnover	19,30	23,72	16,59	14,01	14,43	17,06	15,54	11,21
AP Turnover	14,11	19,42	10,79	6,64	8,15	10,24	9,39	6,43
Inventory Turnover	7,56	10,43	7,00	4,49	5,03	7,00	7,33	3,95

The overall performance of the current ratio and quick ratio was showing an increase from 2013-2020 but it was not significant and mostly stable. The current ratio stayed between 1-2 except for 2020 the ratio was 2,16. It means that the company was able to pay its obligation because it has a larger portion of short-term asset value compared to its short-term liabilities. In 2020 showed the highest ratios that means the more capable company to pay its obligation within one year. The Company's quick ratio was less than 1 in the first 2 years, then increase to more than 1 from 2015 to 2020. This means that in 2013 and 2014 the company was not capable of paying its current liabilities in the short term while in 2015 until 2020, Pertamina could instantly fulfill its current liabilities. Same with the current ratio, the quick ratio was the highest in 2020 for 1,70 which indicates that the company has $1,70 of liquid assets available to cover each of $1 of its current liabilities.

The trend for Account Receivable Turnover, Account Payable Turnover, and Inventory Turnover was the same. It showed a declining trend and had its highest ratio in 2014 while lowest one in 2020. Account Receivable Turnover (AR Turnover) showed a declining trend that indicates a change in the terms of credit where its customer can pay later. The peak of the ratio was in 2014 for 23,72 that showed the company's collection of accounts receivable is efficient and that the company has a high proportion of good customers who always pay their debt quickly. Account Payable Turnover also had a decreasing trend from 2013 to 2020. It indicated that the company is taking a longer time to make a payment for its suppliers than in the previous periods. The rate at which the company is paying its debt can be an indication of the company's financial conditions. In this period of time, a declining trend could give a signal that the company is in financial distress. On the other hand, it could also be an indication that the company has negotiated different payment agreements with its suppliers. For inventory turnover, a low rate implies weak sales and overstocking which might be happened in 2020 because the ratio was only 3,95. A high ratio in 2014, 10,43, explained that the company had good sales so it could sell goods quickly.

Profitability ratio from 2012-2020

Table 5. Profitability ratio from 2013-2020

Profitability	2013	2014	2015	2016	2017	2018	2019	2020
Profit Margin	0,04	0,02	0,03	0,08	0,06	0,05	0,04	0,02
ROA	0,06	0,03	0,03	0,07	0,04	0,04	0,04	0,01
ROE	0,26	0,08	0,06	0,14	0,09	0,09	0,08	0,02

The profit margin was decreasing from 2013 and made a significant increase in 2016 before continuously declining until 2020. This ratio indicates what percentage of sales has turned into profit. The highest profit margin was 0,08 in 2016 while the lowest one was in 2020 for only 0,02. For the Return of Asset (ROA) the higher the value means the more asset efficiency. In the graph above, it can be seen that the trend was decreasing. So it was not a good signal for the investor because the company's management was not that efficient in using its assets to generate earnings. Of all fundamental ratios, investors mainly focused on Return on Equity (ROE) because it is a basic test showing how effectively a company's management uses investors' money. In this case, shows that ROE had a major decrease from 2013 until 2020 amounted to approximately 24%. It implies that investors could conclude that PT Pertamina's management is not getting better but rather had poor management in using shareholders' money in generating profits.

Solvency ratio 2013-2020

Table 6. Solvency ratio 2013-2020

Solvency Ratio	2013	2014	2015	2016	2017	2018	2019	2020
Debt to Total Asset Ratio	0,63	0,63	0,57	0,53	0,53	0,54	0,53	0,55
Liabilities to Shareholder's Equity Ratio	1,35	0,96	0,90	0,77	0,76	0,71	0,76	0,87

The debt to total asset ratio can be used to compare the company's leverage with the other companies within the same industry. It also indicates how financially stable a company is. The higher the ratio, the higher the degree of leverage (DoL), and consequently the higher the risk of investing in the company. In the overall performance from 2013-2020, the rates were quite stable in which there were no significant changes. Between those periods, there was no rate above 1, meaning that there were a greater portion of the company's assets is funded by equity (not funded by debt). It indicates that the company had a low risk and the risk was decreasing over time from 2013 to 2020.

The liabilities to shareholder's equity ratio provides information on a company's use of its debt. A company with a higher ratio indicates a higher risk in lender and investor perspectives because it shows that the company is financing a significant amount of its potential growth through borrowing. What is considered a high ratio are varies among industries but in general it should not be more than 2.0. In this case, PT Pertamina Debt to Equity ratios were not more than 2 in the period of 2013-2020. The highest was in 2013 for 1,35 and the lowest one was 0,71 in 2018.

CONCLUSION

The conclusions from this study can be drawn as follows: This research uses The Annual Financial Statement and Sustainability Reporting of PT Pertamina Persero in 2013-2020 as the research object. In analyzing sustainability reports, this study takes a deep look at Pertamina's annual report, sustainability report, and official websites. By enriching and reading from those various sources, sustainability-related investment and expenses, and SRDI are further elaborated to make conclusions. In this research, financial performance is measured by analyzing financial ratios where the initial data is taken from Pertamina's annual report. The financial ratios used in this study are current ratio, quick ratio, account receivable turnover, account payable turnover, inventory turnover, profit margin, ROA, ROE, liability to asset ratio, and long-term debt to equity ratio. There is a positive relationship between investment for sustainability and SRDI. Between 2013-2020 sustainability-related investment and SRDI were having the same trend over the period except in 2018 and 2020. When Pertamina put more money on sustainability investment it tends to disclose more information on its report. A positive relationship can be seen between sustainability investment and firm performance measured by current ratio and quick ratio. From 2013 until 2020, these indicators were showing the same tendencies except in 2014-2015 and 2019-2020. The other year's gaps were showing that the increase in investment affected the inclined in quick and current ratios. There is a positive relationship between the company's sustainability expenses with ROE in the period of 2013-2016. There was not enough disclosure in sustainability expenses after 2016. The sustainability expense and ROE between 2013-2015 were decreasing and while in 2015-2016 these two were increasing. A negative effect had shown between SRDI and profit margin. Even though the company discloses more information related to sustainability, its profit margin tends to show a declining trend from 2013-2020. A positive effect can be seen between SRDI and financial ratios, namely the current and quick ratio. The trends for SRDI and the two ratios were the same in the period of 2013-2020 except in 2014-2015 and 2017-2018.

PT Pertamina Persero had published sustainability reporting since 2011 but since then the company never clearly stated total investment and expenses in sustainability within the reporting period. The data used in analyzing the effect of sustainability report disclosure on financial performance was from 2013-2020 which could be not enough to provide a legit conclusion because the period was short. This research uses The Annual Financial Statement and Sustainability Reporting of PT Pertamina Persero in 2013-2020 as the research object. In analyzing sustainability reports, this study takes a deep look at Pertamina's annual report, sustainability report, and official websites. By enriching and reading from those various sources, sustainability-related investment and expenses, and SRDI are further elaborated to make conclusions. In this research, financial performance is measured by analyzing financial ratios where the initial data is taken from Pertamina's annual report.

ACKNOWLEDGEMENTS

On this occasion the author expresses his deepest gratitude and highest appreciation to those involved in this research. Co-authors and customers who have provided a lot of assistance have played a role in facilitating the research and writing of this thesis.

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