How Does Triple Bottom Line Reporting Influence Financial Performance?

(Evidence from the LQ45 Companies Listed in the Indonesia Stock Exchange)

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Abstract

The objectives of this study are to investigate the extent of triple bottom line (TBL) reporting in the annual reports of companies listed in the Indonesia Stock Exchange, and to test for the influence of corporate characteristics and the level of TBL reporting on financial performance. The population is the LQ45 group of companies listed in the Indonesia Stock Exchange. The study considers the corporate annual reports issued during the period 2011 to 2013. The results show that Indonesian listed companies provided an average of 932 sentences of TBL reporting in their annual reports during the period 2011 to 2013. There is a significant positive influence of the levels of TBL reporting and the type of industry on corporate financial performance. Among previous studies on corporate social responsibility reporting in Indonesia, this study is the first to investigate TBL reporting by Indonesian listed companies.

Key Words: Triple Bottom Line reporting, LQ45, financial performance, and the Indonesia Stock Exchange

Introduction

Companies in today's world have recognized that they cannot develop or grow if they do not care about the situation around them including social and environmental issues. The impact of factors such as labor unions, climate change, and global warming forces companies to be more socially and environmentally sensitive. National and international phenomena clearly dictate that corporations cannot pay attention only to the

economic dimension, but also need to pay more attention to society and the environment. Therefore, companies need to address the challenges of environmental and social change such as, employee welfare, the well-being of the local community climate change and saving energy.

In Indonesia, the Company's Environmental Rating Program (PROPER) was created by the Ministry of Environment of the Republic of Indonesia in 2005. The program has been used to increase the number of companies providing quality reports of their activities, actions, management and awareness of their environmental impact (The Ministry of Environment, Republic of Indonesia 2012). Under this program, all companies in Indonesia provide corporate social responsibility reporting (CSR) based on government regulation. However, the problem with this regulation is that there are no clear and specific guidelines on how to disclose social and environmental information (Kurniawan and Wibowo 2013) and there are no specific regulations or clear standards about using CSR reporting to accommodate the interests of stakeholders equally and fairly (Milamarta 2012). Moreover, most companies use CSR reporting to create a good image and encourage positive publicity by showing that they are acting like good citizens and behaving ethically towards society and the environment, even though their real purpose may be to avoid legal sanctions and to reduce the possibility of creating a negative image with their stakeholders (Gray et al. 1995). Ebner and Baumgartner (2006) suggest that sustainable development cannot be achieved through CSR reporting as long as it is applied only on a voluntary basis, where corporate reporting tends to work as a tool that does not cover the environmental and social dimensions in addition to the economic dimension.

Corporate responsibility is based on three pillars, covering three dimensions: economic, social and environmental, which a company can express through triple bottom line (TBL) reporting. Using TBL reporting, corporate responsibility does not concentrate on a single bottom line which is focused only on economic (financial) disclosures, but also covers the reporting of non-financial information consisting of social and environmental disclosures. However, TBL reporting is not solely a measurement tool for non-financial (social and environment) information but also encompasses financial (economic) information.

The practice of TBL reporting has, however, generally been late to emerge in Indonesia because it is still a new concept in corporate reporting. According to Milamarta (2012), most companies regard CSR reporting as a tool to report their social and environmental activities and actions, but they try to avoid providing TBL reporting because it is governed by clear and specific guidelines that force companies to disclose bad news about their social and environmental impacts as well as good news. Many previous studies conducted in Indonesia have concentrated on CSR reporting and non-financial disclosures rather than on TBL reporting (Koester, 2007; Fauzi et al., 2007; Afiff and Anantadjaya, 2013; Lucyanda et al., 2012; Rahman and Widyasari, 2008). Although there have been many prior studies about TBL reporting most of them have been carried out in developed countries (for example, Newson and Deegan, 2002; Ho and Taylor, 2007; Sobhani et al., 2012). So far, none have been conducted in Indonesia.

To fill this gap in the TBL reporting literature, this study has two main objectives, to investigate the extent of TBL reporting in the annual reports of the LQ45 group of companies listed in the Indonesia Stock Exchange, and to test for the influence of corporate characteristics and the level of TBL reporting in annual reports on the financial performance of the LQ45 group of companies listed in the Indonesia Stock Exchange. The results of this study are expected to be of benefit to investors who use information from TBL reporting in the annual reports of companies listed in the Indonesia Stock Exchange in their decision making. The study will also add information in the field of accounting especially in respect of TBL reporting and the corporate voluntary disclosures of companies listed in the Indonesia Stock Exchange. Moreover, this study provides additional information concerning TBL reporting policies and standards, including the absence of explicit standards, regulations and policies regarding TBL reporting in Indonesia.

Triple Bottom Line Reporting in Indonesia

TBL reporting has been late to emerge in Indonesia in comparison with developed countries. In earlier times, most companies used CSR reporting to disclose social and environment information, but TBL reporting was not common as a means of making corporate disclosures (Koestor, 2007). However, since 2003, TBL reporting in Indonesia has gained greater recognition and some corporations in Indonesia have started to adopt

TBL reporting in their corporate annual reports. From the beginning, the Ministry of Environment of the Republic of Indonesia has promoted this reporting concept to the Indonesia Accounting Society (IAI) through the international body which moderates the accounting profession, the Association of Chartered Certified Accountants (ACCA, 2010) since 2004. This is part of an effort to make the business world disclose and communicate information about the impact of its operation on the environment through non-financial reporting, particularly by implementing TBL reporting. It is also in response to demands from stakeholders to make corporations more transparent and accountable in fulfilling their responsibility to society and the environment (The Ministry of Environment, Republic of Indonesia, 2005).

To solve the lack of expertise in and knowledge of TBL reporting, the National Center for Sustainability Reporting (NCSR, 2013) was founded in 2005 by five organizations consisting of The National Committee on Governance (KNKG), The Indonesian-Netherlands Association (INA) the Public Listed Companies Association (AEI), the Forum for Corporate Governance in Indonesia (FCGI) and The Indonesian Management Accountants Institute (IAMI). The NCSR's main purposes is to be the main means of promoting, supporting and developing TBL reporting in Indonesia through offering assistance to individual organizations. The NCSR has translated the Global Reporting Initiative (GRI) TBL Reporting Framework (Version G3) into Bahasa Indonesia which will make it much easier for companies to follow.

Social and environmental reporting in Indonesia has been made mandatory by the Indonesia government since 2007. The Indonesian government states that companies that operate in the field of manufacturing or have any connection with natural resources must exercise corporate social and environmental responsibility, including reporting information relating to their corporate social responsibility in their annual reports. Failure by a company to comply with this requirement will render them liable to a fine set down by law. Moreover, all state owned enterprises are required to allocate at least one to three percent of their profit for community development programs and must submit a report of this activity separately from their audited corporate report. The Institutions Supervisory Agency, which was introduced in December 2006, requires that all listed companies must submit annual reports including "a description of the activities and expenditures related

with corporate social responsibility towards society and environment" in their annual reports (Bapepam, 2006).

However some companies have begun to take action to prevent their position being adversely affected, by using CSR reporting to address social and environment issues (Koestor, 2007). Therefore, they have started to adopt the concept of TBL reporting because this form of reporting includes principles and standards which can enhance the overall reputation of the company. Companies also believe that it has benefits beyond reputation and image, and that it also develops and improves the company's ability to keep track of its progress, strengthen dialogues with stakeholders, increase the company's confidence and enhance its social license to operate as well as creating competitive advantage in the market (Witoelar, 2005). Since TBL reporting is governed by clear guidelines such as the GRI guidelines, many companies are more inclined to adopt this form of reporting (ACCA, 2010).

Theoretical Perspectives

This study uses legitimacy and stakeholder theories to investigate the extent and level of TBL reporting in the annual reports of Indonesian LQ45 listed companies, and to test for the influence of corporate characteristics on the relationship between the level of TBL reporting and financial performance These theories are considered because it has been identified that for the majority of ASEAN companies the main internal driver for reporting is to provide information to stakeholders while the main external drivers of reporting are the commitment of the organization to inform stakeholders about the organization's activity and also to be able to operate legally (ACCA 2010). Moreover, many previous studies about social and environmental reporting have used both legitimacy theory (Hackston and Milne, 1996; Hossain and Hammami, 2009; Rahman and Widyasari, 2008; and Newson and Deegan, 2002) and stakeholder theory (Fauzi et al., 2007; Suttipun, 2012; and Rahman and Widyasari, 2008).

Legitimacy Theory

Legitimacy theory posits that an organization will put effort into making its operations legal by operating within the norms and bounds of the social expectations of the community in which it operates (Blomquist and Deegan, 2000). Within this theory, organizations are said to earn their legal permit to operate from the community, but that permit is not permanent and organizations who do not react and respond to pressure from and the social expectations of its stakeholders may find that their operations are no longer viable (Lindblom, 1994). When companies produce corporate reports which display positive actions, this will help to promote their legitimacy and adopting acceptable practices is a means of sending messages of sincerity and honesty to their society (Mobus, 2005). However, Guthrie and Parker (1989) argue that corporate reports act as a tool to sustain, legitimize and construct companies' economic agenda, while companies may attempt to influence the public's negative perceptions by making voluntary disclosures. Companies may also increase their disclosures of environmental or social information when their legitimacy is under pressure and there is a risk to their operation (Deegan et al., 2002).

Stakeholder Theory

Stakeholder theory suggests that a company's existence depends on its stakeholder demands. Each stakeholder has the right to receive information from the organization, even though stakeholders may not use that information, nor have direct influence on the organization (Gray et al., 1995). Different types of stakeholder have different power to compel and influence corporate actions and activities and companies need to continually adapt their operating and reporting behaviors (Deegan, 2000). Moreover, companies also need to maintain their relationship with their stakeholders by frequently providing information such as by disclosing CSR information in their annual reports. According to Fauzi et al. (2007), stakeholders can be classified into two categories: primary and secondary. Primary stakeholders such as customers, suppliers, employees and investors are directly affected by every decision made by the company. On the other hand, secondary stakeholders may be either directly or indirectly affected by the company's decisions. These stakeholders include business groups, local communities, the media, social activist groups, and foreign and local governments.

Literature Review and Hypotheses Development

The dependent variable in this study is financial performance. Financial performance is the result of corporate operation flowing by vision and goal of companies. The financial performance is one of the most key performance index of companies because corporate investors and shareholders need to know and use this financial performance as an important information for decision making of investment. Financial performance can consist of three types that are (1) profit growth including of sales increase and cost reduction, (2) sales growth including market share and market growth, and (3) cost reduction including experience cost, energy saving, and waste management. Financial performance are measured within several financial ratios such as gross profit margin, operating margin, return on assets, return on equity, return on sales, and return on investment. However, return on assets (ROA) is used as proxy of financial performance in this study. It is because the ROA is used to test an influence of financial and non-financial reporting on corporate financial performance in prior studies (Fauzi et al., 2007, Ho and Taylor, 2007, Lucyanda et al., 2012).

To test whether corporate characteristics and the level of TBL reporting in annual reports have influenced on the financial performance of the LQ45 group of companies listed in the Indonesia Stock Exchange, there are five hypotheses in this study. With financial performance as the dependent variable, the level of TBL reporting operates as the independent variable with the control variables being the size of the company, the company's age, the type of industry, and the company's liquidity. The relationship of the variables is shown in Figure 1.
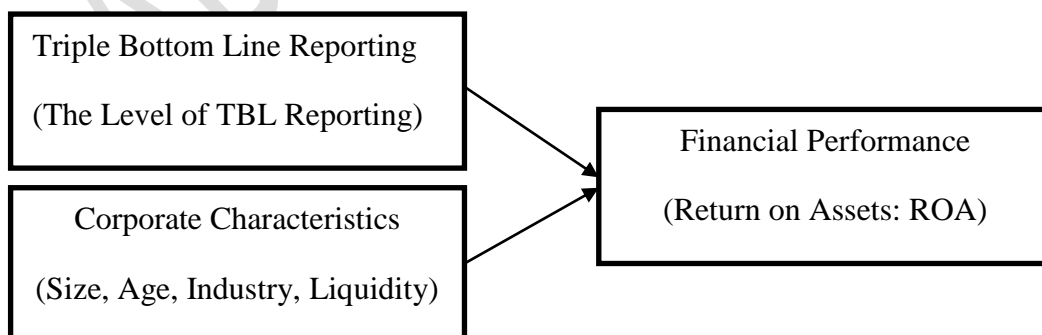

Figure 1. Framework of the study

The notion of corporate growth in mainstream economics, typified by the concept of "larger is better than smaller", has become entrenched in the business environment. Moreover, some previous studies (e.g. Deegan and Gordon, 1996; Newson and Deegan, 2002) have been able to show that larger companies produce a higher level of performance than smaller companies. Using both legitimacy and stakeholder theories, larger companies undertake more actions and activities with making a greater impact on society, and have more number of stakeholders than smaller companies that why if the larger companies can serve social expectation and stakeholder demand well, the larger companies will have royalty from them including higher financial performance than the smaller firms (Newson and Deegan 2002). Therefore, this study's hypothesis is that:

H₁: There is a positive relationship between company size and financial performance.

Company Age

By stakeholder theory, if companies can satisfy their stakeholder demands well, they can get right to live longer because their stakeholders support tham such as customer satisfaction, labor satisfaction, and high profit and finance performance (Deegan 2000). However, Rimmel et al. (2009), in a study in Japan, suggest that the company's age has a negative relationship with performance, with younger companies achieving better corporate financial performance than older companies. Further. Suttipun (2012), in a study in Thailand, found that a company's age has a negative relationship with financial performance and that younger companies report superior financial performance than older companies. Among the explanations offered for these findings are that older established companies tend to take fewer risks for their investors whereas younger companies try to provide a better financial performance in order to maximize the return for their investors. Therefore, the hypothesis tested in this study is that:

H₂: There is a negative relationship between company age and financial performance.

Type of Industry

Some previous studies focused on companies in developing countries were unable to find any relationship between type of industry and the company's financial performance (e.g. Rahman et al., 2010; Aras et al., 2009) whereas studies in developed countries have tended to find that such a relationship exists. In Indonesia, Mayasari (2011) found that Indonesian listed companies in the high environmental and social

sensitive industries such as mining and energy discloses more corporate social responsibility information on their websites than the low environmental and social sensitive industries. Theoretically, this is because the companies in the high environmental and social sensitive industries are expected from stakeholder concerns and social expectations affecting more social and environmental impact than the companies in the low environmental and social sensitive industries (Choi 1999). For example, Dragomir (2010) found that highly environmentally sensitive companies performed better than low environmentally sensitive companies. Shergill and Sarkaria (1999) also found a relationship between industry type and the company's financial performance in Indian companies. On the other hand, Fauzi et al. (2007) found that there was no significant relationship between the type of industry and the company performance of Indonesian companies. Therefore, this study set out to test whether:

H₃: There is a positive relationship between type of industry and financial performance.

Liquidity

Ho and Taylor (2007) suggest that companies with higher liquidity may have to provide more information regarding financial and non-financial information in their annual report than companies with lower liquidity. They argue that this is because a company with high liquidity may give more details about how it pays off its short term debt as this is connected with stakeholders' concerns about the company's sustainability and survival, while also increasing the value of the company. Ho and Taylor (2007) however, found that liquidity has a negative relationship with the extent of TBL disclosure, with companies with higher liquidity disclosing less information by way of TBL reporting. The results from other studies however show inconsistent results with Alaseed (2006), Owusu-Ansah (1998) and Wallace et al. (1994) finding no significant relationship between liquidity and the extent of a company's disclosure of information. Nevertheless, this study tests the hypothesis that:

H₄: There is a negative relationship between liquidity and financial performance.

The Level of TBL Reporting

According to Timothy (2011), there is a positive relationship between TBL reporting and financial performance with that study suggesting that businesses use TBL reporting to ensure greater long-term performance. Similarly, Ekwueme et al. (2013)

found that there is a positive relationship between corporate performance and the use of TBL reporting, and they conclude that customers tend to purchase from companies that care about the health and safety needs of their customers while also contributing to the well-being of society. Thus most companies that employ TBL reporting do so to ensure that their customers remain loyal while also generating more profit. This is because the companies will tend to satisfy the information demands of their stakeholder and society that are the greatest importance to the corporate ongoing survival, if they need to have better financial performance (Nasi et al. 1997). Moreover, both stakeholder and legitimacy theories can explain that the TBL reporting can serve their stakeholder demands and social expectations by increasing the corporate financial performance (Porter and Kramer 2006). Therefore, the companies can earn more profit and the other financial performance than offset the cost of TBL reporting. However, On the other hand, the studies of Alsaeed (2006) and Hossain and Hammani (2009) found that financial performance has no significant relationship with the extent of information disclosed in annual reports. Therefore, this study tests the hypothesis that:

H_5: *there is a positive relationship between the level of TBL reporting and financial performance*

Methods

The methods used in this study can be separated into three parts consisting of sample selection and data collection method, selection of the dependent, independent and control variables used in the study, and data analysis including the equations used in the study.

Sample Selection and Data collection

The population for this study is the listed companies in the LQ45 index of the Indonesia Stock Exchange as these companies are the 45 top companies listed in the Indonesia Stock Exchange, although there are around 500 firms in the Indonesia Stock Exchange. The LQ45 is the top stock market index of the Indonesia Stock Exchange (Afiff and Anantadjaya, 2013). The LQ45 index consists of 45 companies that have been included in the top 45 firms with highest market capitalization in the last 12 months, have been among the top 45 firms with the highest transaction value over the past 12 months,

have been listed in the Indonesia Stock Exchange for at least 3 months, and have good financial conditions, prospect of growth, and corporate management. The study uses the LQ45 group because top companies tend to report more non-financial information publicly (Deegan and Gordon 1996). Moreover, top companies are more likely to respond to social and environmental agendas than non-top companies (Brammer et al. 2009). These companies were refined to satisfy the study's sampling criterion and only those companies in the LQ45 group throughout 2011 to 2013 are included in the sample studied. These years have been chosen because during 2008, no companies adopted the International Financial Reporting Standards (IFRS), while in the year 2010, companies began adopting the IFRS as the local reporting standard which also began to merge with the IFRS. During the year 2012 it was discovered that a high percentage of companies had already adopted the IFRS (IFRS, 2014). Therefore, this study focuses on those companies, which were in the LQ45 group every year between 2011 and 2013 so that only 34 of the listed companies in LQ45 have been selected as the sample for this study.

Dependent, Independent, and Control Variables

In measuring the TBL reporting in the companies' annual reports this study is similar to previous studies conducted by Ho and Taylor (2008), Suttipun (2012) and Sobhani et al. (2012). This study uses content analysis and the Global (GRI) Reporting Guidelines (2002) to measure the TBL reporting in the companies' annual reports. Content analysis is a standard methodology in social science for studying the content of communication and is a technique of objectively and systematically identifying specified characteristics of messages (Deegan 2002). The GRI (2002) Reporting Guidelines have been adapted for use in this study. They consist of 60 items and categorize disclosures into three different dimensions, economic, social and environmental and this categorization is used in this study to measure the extent of TBL reporting (See Appendix). The level of TBL disclosure is measured based on the items disclosed in the companies' annual reports which conform to the indicators set out in the GRI Reporting Guideline (Version G3, 2002). The measure adopted in this study is the number of sentences used in respect of each item to indicate the level of TBL disclosure. Each item is then categorized to the appropriate dimension. If no items are disclosed in respect of one of the dimensions, that is counted as zero (0).

Financial performance as a dependent variable is measured in a manner similar to that adopted by Fauzi et al. (2007), Lucyanda et al. (2012), Ho and Taylor (2007), and Hackston and Milne (1996) based on the company's return on assets (ROA). This measure indicates the company's ability to generate profit by using the company's assets. For the measurement of the control variables, the size of the company is represented by the company's total assets in a manner similar to the studies of Hossain (2009), Fauzi et al. (2007), Lucyanda et al. (2012), and Rahman and Widyasari (2008). The age of the company is measured by the number of years that the company has been operating, the same measure adopted by Hossain (2009), Owusu-Ansah (1998) and Suttipun (2012). For industry type, the companies are categorized according to the environmental sensitivity of their industry sector following the previous studies of Fauzi et al. (2007), Lucyanda et al. (2012), and Rahman and Widyasari (2008). The companies listed in the Indonesia Stock Exchange are divided into 9 industry sectors and these have been sub-divided into high profile companies, which are sensitive to the environment (petroleum and mining, basic industry and chemical, agriculture, miscellaneous, consumer goods, and infrastructure, utilities and transportation industries), and low profile companies which have little impact on the environment (property, real estate and building construction, financial, and trade, services and investment industries). High profile companies are allocated the dummy variable, 1 and low profile companies are allocated the dummy variable, 0 Finally, liquidity is measured in the same way as in the studies of Alaseed (2006), Suttipun (2012), Ho and Taylor (2007) and Owusu-Ansah (1998) and is measured based on the company's current ratio, which shows the company's ability to pay its short-term debt.

Data Analysis

The Data collected in this study is analyzed using descriptive statistics, independent sample t-tests, and multiple regression. The extent of TBL reporting and the other variables are analyzed based on their mean values, standard deviation, frequency, and percentage and an independent sample t-test is used to test for a significant difference in the levels of TBL reporting between groups based on industry type. To test for the influence of corporate characteristics and the level of TBL reporting on the financial performance, a multiple regression model is used. The equation for the multiple regression model is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + \text{error}$$

Where:

Y	=	Financial performance (measured by ROA)
X_1	=	Size of company (measured by total assets)
X_2	=	Company age (measured by age in years)
X_3	=	Type of industry (based on the dummy variables, 0 for low profile companies, and 1 for high profile companies)
X_4	=	Liquidity (measured by current ratio)
X_5	=	The level of TBL reporting (measured by sentence count)

Findings and Discussion

The results, show that the sample of 34 Indonesian listed companies provided an average of 932.15 sentences of TBL reporting in their annual reports during the period 2011 to 2013 (See Table 1). The highest level of TBL reporting is in respect of the economic dimension (55%) followed by the social dimension (28%), with the lowest level of disclosure being made in respect of the environmental dimension (17%). These results are consistent with those of Suttipun (2012) who found that economic disclosures are the most common form of TBL reporting in annual reports, followed by social and environmental disclosures. The results support legitimacy theory since although it is mandatory for listed companies in Indonesia to disclose both corporate financial and non-financial information, there are no clear and specific guidelines relating to social and environmental disclosures. Therefore, companies will tend to disclose "good news" and try to avoid disclosing "bad news". On the other hand, corporate financial disclosures in Indonesia have to conform to the IFRS and companies are therefore obliged to make disclosures in line with those clear and specific guidelines.

Under type of industry, there are 11 low profile companies from the property, real estate and building construction, financial, and trade, services and investment industries sectors and 23 high profile companies from the petroleum and mining, basic industry and chemical, agriculture, miscellaneous, consumer goods, and infrastructure, utilities and transportation industries sectors. They provided respectively 839.944 and 971.198 sentences of TBL reporting. Based on an independent sample t-test, there is a significant

difference at the 0.01 level in the level of TBL reporting in annual reports of low and high profile companies.

Table 1.

Descriptive Analysis

Variables	N	Mean	S.D.	Max.	Min.
Size of company	34	94.4476	58.466	640.20	6.86
Corporate age	34	52.0588	35.261	154	13
Liquidity	34	1.9235	1.292	5	0.66
Financial performance	34	10.2312	9.622	39.73	-5.37
Triple Bottom Line reporting	34	932.146	237.110	1404.33	491.33
Dummy variable	N	TBL Mean	S.D.	t	sig
Industry profile					
- Low profile industry	11	839.944	302.725	6.412	.00**
- High profile industry	23	971.198	424.932		

A Correlation matrix is used to test the relationship between each pair of variables and to confirm that the variables are not identical (See Table 2). The results show that there are significant relationships between the level of TBL reporting and both the type of industry, and the financial performance of the companies. Moreover, size of company is significantly related to type of industry, and liquidity, and company performance is also significantly related to type of industry. There are no significant relationships between the other variables.

Table 2.

Correlation Matrix

Variable	TBL	Performance	Size	Age	Industry	Liquidity
TBL	1					
Performance	.354*	1				
Size	.537**	.291	1			
Age	.129	.232	.162	1		

Industry	.019	.405*	-.532**	-.001	1	
Liquidity	.196	.312	-.378*	-.053	.277	1

** and * are significant at the .01 and .05 level respectively

To test for the influence of corporate characteristics and the level of TBL reporting on the financial performance, a multiple regression model is used (See Table 3). The findings indicate that only the level of TBL reporting and the type of industry influence corporate financial performance (significant at the 0.01 and 0.05 levels respectively). The results are similar to those of Ho and Taylor (2007) in finding a relationship between TBL reporting and the corporate profit of listed companies in developed countries such as the USA and Japan, where regulations apply to both financial reporting (economic disclosures) and non-financial reporting (social and environmental disclosures) as is the case in Indonesia. On the other hand, the findings are different from those of Suttipun (2012) who did not find any relationship between the level of TBL reporting and the corporate profitability of the top50 companies listed in the Stock Exchange of Thailand. This is because TBL reporting in Thailand is still voluntary.

The results support the theories used to guide this study. For example, stakeholder theory can explain the relationship between the level of TBL reporting and corporate financial performance since those companies which have to satisfy their stakeholders' demands through their actions and activities make more disclosures and thereby gain more benefit and support from stakeholders than companies who do not satisfy such stakeholder demands. The benefit and support from stakeholders is reflected in both corporate financial and non-financial performances through, for instance, higher sales and profit, a better image and reputation, and greater stakeholder satisfaction.

However, the results of this study do not suggest that there is a relationship between size of company, company age, liquidity, and financial performance by listed companies in Indonesia. The study results have consistence with Owusu-Ansah (1998) and Wallace et al. (1999). This is because, in terms of company size, the companies in different industries invest in different type and amount of investment, and can earn a different profit margin (Owusu-Ansah 1998). Therefore, the larger companies cannot guarantee whether they can get more profit and the other financial performance than the smaller companies. As same as corporate age, the companies with longer live do not mean that they can earn more financial performance that the new companies. It is because

the companies which have been in the Stock Exchange of Thailand normally have good and stable financial performance. Therefore, there is not difference between the corporate age and their financial performance (Parter and Kramer 2006). In the influence of liquidity on financial performance, the result of study is different with Ho and Taylor (2007) who found that liquidity has a negative relationship with the extent of TBL disclosure, with companies with higher liquidity disclosing less information by way of TBL reporting. This is because liquidity represented by corporate current ratio does not provide corporate profitability in Thai context. Therefore, the study accepts the hypotheses no. 3 and 5 at 0.05 significant level, while the hypotheses no. 1, 2, and 4 are rejected at 0.05 significant level.

Table 3.

Multiple Regression Model

Performance = a + b1Size + b2Age + b3Industry + b4 Liquidity + b5 TBL reporting + error					
Model C	Unstandardized		Standardized	t	sig
	B	Std. error	Beta		
(Constant)	12.520	6.230		2.010	.054
Size	.018	.014	.290	1.272	.214
Age	.071	.040	.262	1.797	.083
Industry	10.454	3.819	.516	2.737	.011*
Liquidity	1.425	1.156	.191	1.233	.228
TBL reporting	.018	.007	.516	2.750	.010**
R = .654, R Square = .427, F = 4.180**					

** and * are significant at .01 and .05 level

Conclusions, Limitations, and Suggestions for Future Research

This study aims to investigate the level of TBL reporting in the annual reports of the LQ45 group of companies listed in the Indonesia Stock Exchange, and to test for the influence of corporate characteristics and the level of TBL reporting in annual reports on the financial performance. The population of the study is the LQ45 group of companies listed in the Indonesia Stock Exchange using the corporate annual reports issued during the period 2011 to 2013. However, only 34 of the LQ45 companies were included in the sample investigated in this study. Content analysis by sentence count is used to quantify the level of TBL reporting in the annual reports. The results showed that Indonesian listed

companies provided an average of 932 sentences of TBL reporting in their annual reports during the period 2011 to 2013. The highest level of TBL reporting was in respect of the economic dimension followed by the social and environmental dimensions. Based on an independent sample t-test, there is a significantly different level of TBL reporting in annual reports between low profile and high profile companies. Moreover, there are significantly positive influences of the levels of TBL reporting and type of industry on financial performance of the LQ45 companies. Therefore, the study accepts the hypotheses no. 3 and 5 at 0.05 significant level, while the hypotheses no. 1, 2, and 4 are rejected at 0.05 significant level.

The study finds a significant positive influence of the level of TBL reporting on corporate financial performance. This result is consistent with the findings of Nakao et al. (2007) and Ho and Taylor (2007) who found a positive relationship between TBL reporting and the financial performance of corporations. The results also indicate a significant positive influence of industry type on corporate financial performance. Stakeholder theory suggests that this arises because corporate stakeholders in high profile industries expect greater disclosure of corporate financial and non-financial information than stakeholders in low profile industries and that if companies can satisfy their stakeholders' demands, they can improve their financial performance for instance, by increasing income, net profit, and image. This result in Indonesia which is a developing country is consistent with evidence from developed countries, for example, Ho and Taylor (2007), Dragomir (2010) and Shergrill and Sarkaria (1999) who found that high profile companies produced better financial performance than low profile companies.

This study provides some contribution to knowledge in the field of TBL reporting. Firstly, the results support the ability of legitimacy and stakeholder theories to explain the extent of TBL reporting in the annual reports of companies listed in the Indonesia Stock Exchange, and the relationship between the level of TBL reporting and corporate financial performance in Indonesia as well as in developed countries. Secondly, the study should have practical benefit since it extends the knowledge of TBL reporting by listed companies in Indonesia. It is also suggested that this study gives important insights to investors when making decisions to invest in companies and in particular clarifies the influence of various corporate characteristics on TBL reporting. The results also indicate that companies provide more economic disclosures than social and environmental disclosures which suggest that the regulations introduced by the Indonesian government

are not yet effective in forcing companies to disclose more social and environmental information even if the level of such disclosures increases every year. This study also provides general information about TBL reporting in Indonesia as well as other developing countries.

However, there are three limitations to this study. Firstly, out of the LQ45 group of companies listed in the Indonesia Stock Exchange, only 34 companies have been included in the sample. Therefore, the results of the study may have been different if the sample had included non-LQ45 listed companies. Secondly, the study considered only the effect of company size, age, industry type, and liquidity on the level of TBL reporting. However, other corporate characteristics have been considered in previous studies that were not used in this study, such as auditor type, business type, ownership status, and country of origin. Finally, the study considered only the companies' annual reports to establish the level of TBL reporting. However, there are other media used by corporations such as stand-alone reports, and websites which might also be used to perform TBL reporting. Therefore, it is suggested that future studies should also consider TBL reporting in other media by non-LQ45 companies listed in the Indonesia Stock Exchange and that the influence of other corporate characteristics such as auditor type, business type, ownership status, and country of origin should also be considered. Moreover, comparative studies of the nature, and level of TBL reporting between Indonesian listed companies and listed companies in other ASEAN companies should also be conducted.

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Appendix. The Triple Bottom Line Reporting Guideline

No.	Economic dimension	Social dimension	Environmental dimension
1	Information about size and profitability	Company's statement of a corporate commitment to its shareholders and society	Company's statement of a corporate commitment to environmental protection
2	Identification of a contact person for providing additional information	Awards received relevant to social performance	Any mention of environmental regulation
3	Products or services breakdown	Identification of a contact person for providing additional information	Involvement of environmental experts in business operations
4	Market shares by region	No. of employees and their geographic distribution	Environmental audit
5	Information on backlog orders	Turnover of workforce	Environmental awards
6	Information on major suppliers	Levels of employee education	Incorporation of environmental concerns into business decisions e.g. green purchasing
7	Payroll information by country or region	Employee benefits concerning health care, disability, retirement	Identification of a contact person providing information
8	Fringe benefits information by country or region	Employee job satisfaction	Energy usage information
9	Employee stock options or bonus programs	Employee health and safety information e.g. number of lost workdays, accidents, or deaths	Encouragement of renewable energy consumption
10	Information on major creditors	Employee training and education	Water usage information
11	Dividend distributions	Any mention of policy addressing workplace harassment and discrimination	Information concerning the materials that are recycled or reused
12	Taxes	Number of women & minorities	Any mention of strategy for the use of recycled products
13	Discussion of social capital formation e.g. donations	Policy or procedure dealing with human rights issues	Information about the source, type and remedy procedures of emissions
14	Size and types of major tangible investments	Any mention of policy for preserving customer health and safety	Pollution impacts of transportation equipment used for logistical purposes
15	Economic performance of major tangible investments	Company's involvement in community philanthropic activity	Environmental impacts of principle products and services
16	R&D investments	Policy for prioritizing local employment	Discussion of the amount and type of wastes and mention of waste management
17	Investment in information technology	Policy for compliance mechanism for bribery and corruption	Any mention of environmental accounting policies
18	Other intangible investments e.g. brand value, reputation	Policy for preventing anti-competitive behavior	Environmental expenditures

19	Earnings or sales forecasts	Policy for consumer privacy	Fines, Lawsuits, or non-compliance incidents
20	Any mention of other forward-looking information	Provision of business code	Environmental contingent liabilities