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Disclosure of sustainability reports of financial performance of textile and garment manufacturing companies on the Indonesia stock exchange

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ABSTRACT

This study aims to analyze the relationship between sustainability report disclosure and financial performance in textile and garment manufacturing companies on the Indonesia Stock Exchange (IDX). A quantitative approach with multiple regression analysis techniques is used. The data used comes from the annual reports of textile and garment companies during 2018–2023. Sustainability report disclosure is measured using the Global Reporting Initiative (GRI) index while the dependent variable is financial performance measured through return on assets (ROA), return on equity (ROE), and net profit margin (NPM). The results of the study indicate that sustainability report disclosure has a positive and significant effect on the company's financial performance. Companies with higher levels of sustainability disclosure have better financial performance in terms of profitability and operational efficiency. This finding confirms that transparency in sustainability aspects improves the company's image and has an impact on investor confidence and the company's competitiveness in the capital market. This study provides implications for textile and garment manufacturing companies to improve the quality of sustainability report disclosure as part of a long-term business strategy. This study can be a consideration for regulators in developing policies that encourage sustainable business practices in Indonesia.

Contribution/Originality: This study can integrate environmental, social, and governance (ESG) indicators with financial metrics to build a more comprehensive analysis framework. This study focuses on companies listed on the IDX, providing a local perspective on the global trend of sustainability reporting.

1. INTRODUCTION

The textile and garment industry in Indonesia is one of the strategic manufacturing sectors that contribute significantly to the national economy, especially in terms of exports and employment. This industry contributes around 6-7% to manufacturing GDP (Central Bureau of Statistics of Indonesia, 2021). Indonesia has a fairly large production capacity for synthetic fibers and fabrics. A competitive workforce and wage costs are relatively lower than in other countries (Hasniati, Indriasari, Sirajuddini, & Karim, 2023). A large domestic market with a population of more than 270 million people is a potential market. Utilization of technology and automation increases efficiency (Ye, Yang, & Shi, 2023). The government of the Republic of Indonesia has made it a policy to enhance domestic production of fabric to reduce imports of raw materials. This industry still has great potential, especially if it can increase competitiveness through innovation and sustainability.

The textile and garment industry in Indonesia is one of the leading sectors that makes a significant contribution to the national economy through exports and job creation (Yuliana, Fatmala, Adiansyah, Haryadi, & Wahyudi, 2024). However, the industry also faces sustainability challenges, including social, environmental, and corporate governance (ESG) issues. Sustainability reporting disclosure by companies is becoming increasingly important with the increasing global attention to sustainability (Karim, Ruslan, Chahyono, Yunus, & Ahmad, 2024). Sustainability reporting disclosure has been linked to increased transparency, competitiveness, and financial performance of companies. Several studies have shown that companies that are more transparent in their sustainability reporting can attract more investors and improve their reputation in the market (Daga, Karim, Nawir, Lutfi, & Jumady, 2024). Many companies in Indonesia already report their financial performance through annual reports which also include Corporate Social Responsibility (CSR) disclosures. Research by Parmar et al. (2010) shows that CSR disclosures in annual reports can enhance transparency and improve a company's relationship with its stakeholders, thereby boosting its reputation.

Several studies often focus on sectors that are more mature in implementing sustainability practices, such as banking and energy while the textile and garment manufacturing industry in Indonesia is relatively under-explored (Karim, Syamsuddin, & Asrianto, 2023). Currently, Indonesia has global sustainability targets such as sustainable development goals (SDGs), especially on goals related to industry, innovation, consumption, and responsible production. Furthermore, previous literature often ignores contextual aspects that are unique to Indonesia, such as local regulations, business practices, and specific challenges faced by companies in this sector. This suggests the need for more in-depth and critical research on the relationship between sustainability disclosure and financial performance in the textile and garment industry (Jenkins & Yakovleva, 2006). Research on sustainability report disclosure and financial performance of textile and garment manufacturing companies on the Indonesia stock exchange provides significant benefits for various stakeholders, both academic and practical and the wider community (Manisa, Defung, & Kadafi, 2017). This research enriches the literature on sustainability disclosure, especially in the textile and garment manufacturing sector which has not been studied in-depth in Indonesia (Gerwing, Kajüter, & Wirth, 2022).

This study provides empirical evidence on the relationship between sustainability report disclosure and corporate financial performance which can be a reference for further research (Karim, Musa, Sahabuddin, & Azis, 2021). It provides insight to companies on the importance of sustainability disclosure in improving reputation and attracting investor interest. Sustainability improvement strategies provide practical recommendations for companies to improve the management of sustainability aspects, such as waste reduction, energy efficiency, and improving working conditions (Bukhori & Sopian, 2017; Rahim, 2024). Companies become more competitive in the global market by demonstrating their commitment to sustainability which is increasingly a major concern for consumers and international business partners (Ang, Cole, & Lin, 2000).

The majority of textile and garment manufacturing companies on the IDX have low to moderate levels of sustainability report disclosure due to cost constraints, lack of awareness, or minimal expertise in preparing sustainability reports. Large companies with larger capital tend to be more active in disclosing sustainability information compared to small or medium-sized companies. Many companies place more emphasis on economic aspects in sustainability reports, such as contribution to economic added value and job creation, compared to social aspects (such as worker welfare) or environmental aspects (waste and emission management).

2. LITERATURE REVIEW

2.1. Corporate Image

Corporate image refers to the perception or picture that the public, customers, and other stakeholders have of a company. Corporate image is the collective impression formed in the public mind about a company based on the experiences, information, and communications received (Kotler & Armstrong, 2016). This image is not only formed by the products and services offered but also by the company's behavior in interacting with the community, business ethics, social responsibility, and contributions to the environment.

Corporate image is a collective representation of a company's identity, values, and reputation as perceived by stakeholders. Corporate image includes perceptions formed from interactions between the company and its environment, including customers, employees, investors, and the community (Fombrun, Gardberg, & Barnett, 2000). The total impression perceived by the audience towards an organization is based on direct and indirect communications (Gray & Balmer, 1998).

Various literature has identified the main dimensions in building a corporate image (Cornelissen, 2000) including (1) product and service quality which is the perception of the superiority and reliability of the company's products or services. (2) Corporate social responsibility as a form of corporate commitment to social, economic, and environmental sustainability that influences positive public perception. (3) Communication and branding in communication efforts through advertising, media, and public relations that shapes the company's image. (4) Ethics and governance, transparency, fairness, and honesty in business activities. Previous research shows a close relationship between sustainability disclosure and corporate image.

Transparent sustainability disclosure increases stakeholder trust in the company (Carroll & Shabana, 2010). Companies that are active in sustainability reports have a better image in the eyes of customers and investors. Transparency of information regarding sustainability reports provides a clear picture of the company's commitment to social and environmental responsibility (Eccles, Ioannou, & Serafeim, 2014). Trust and loyalty become consistent and relevant disclosures that create higher trust from various stakeholders.

2.2. Corporate Environment

The environment in a company refers to all external and internal aspects that affect the company's operational activities, especially related to the company's impact on the physical, social, and economic ecosystems. The company's environment includes two main dimensions which are as follows: (1) Internal environment related to policies, organizational culture, and resource management within the company. (2) External environments such as factors like government regulations, community pressure, and the condition of the ecosystem in which the company operates (Hanna, 1995). In sustainability, managing natural resources, waste, carbon emissions, and measures to reduce detrimental impacts on the ecosystem are examples of physical components of environmental awareness.

Companies have a great responsibility to maintain a balance between business objectives and environmental conservation. Environmental management can improve the company's operational performance and reputation (Hanna & Rocky Newman, 1995). Some of the main roles of environmental management in a company are as follows: (1) Reducing negative impacts in reducing greenhouse gas emissions, waste, and pollution. (2) Operational efficiency in optimizing the use of resources such as energy and water which also reduces operational costs. (3) Fulfilling regulatory compliance to avoid legal sanctions due to violations of environmental standards. (4) Enhance reputation to attract investors and consumers who care about sustainability issues.

The relationship between environment and corporate performance shows that good environmental management can have a positive impact on corporate performance. Innovative environmental strategies can improve resource efficiency and create added value for the company (Porter & Linde, 1995). Reducing emissions and waste is often correlated with increasing corporate profitability in the long term. Companies that receive awards for environmental performance tend to experience increased market value (Hart & Ahuja, 1996). Companies that integrate environmental management into their business strategies show improved operational performance. Proactive approaches to environmental issues, such as eco-efficiency and sustainable development provide long-term benefits for the company.

There is a negative relationship between the level of corporate pollution and financial performance indicating that investment in environmental management is economically beneficial (Lenox & King, 2004). Environmental management in companies, especially in the textile and garment manufacturing sector is very relevant considering the large impact of this industry on the environment, such as textile waste, chemical use, and carbon emissions. This research can contribute to the development of sustainability strategies and better disclosure of sustainability reports.

2.3. Financial Performance

Financial performance is defined as a measure of a company's ability to manage financial resources to achieve business goals, such as increasing profits, operational efficiency, and corporate sustainability (Husaeni, 2018). The importance of financial performance can be a key indicator in evaluating corporate health. It influences stakeholder decisions, such as investors, creditors, and regulators and plays a role in corporate strategy planning to achieve competitiveness. It is usually measured by several key financial indicators, namely profitability, liquidity, leverage, operational efficiency, and market valuation. Factors that influence financial performance are internal and external factors such as operational efficiency, technological innovation, macroeconomic conditions, and industry regulations. The relevance of financial performance in investment decisions is how financial performance is one of the main considerations for investors in assessing the value of a company (Putri & Willim, 2024).

The sustainability report covers economic, environmental, and social aspects (triple bottom line) (Alhaddi, 2015) supports good corporate governance and long-term sustainability. Companies with good financial performance can allocate resources to disclose sustainability reports to gain public legitimacy. Sustainability disclosure is made to meet the expectations of stakeholders who are interested in sustainability aspects (Tóth, Suta, & Szauter, 2022). Good financial performance gives companies a greater ability to invest in sustainability activities (Oncioiu et al., 2020). Quality sustainability disclosure can improve a company's reputation which in turn improves financial performance.

2.4. Indonesia Stock Exchange

The Indonesia stock exchange is an institution that provides securities trading facilities (stocks, bonds, and other instruments) to support capital market activities in Indonesia (Indonesia, 2023) regulated by the Financial Services Authority (OJK) by Capital Market Law No. 8 of 1995. It is a platform for connecting investors and businesses in need of funding. In addition, the IDX is an indicator of national economic performance through the stock price index. The IDX provides an electronic trading system for securities transactions (Husain, 2021). Examples of a system are as follows: Jakarta Automated Trading System (JATS). It ensures that traded securities are easily accessible and have an active market and collaborates with the OJK to oversee the compliance of issuers and market players with regulations.

Educational programs for the public improve financial literacy, increase the number of companies listed on the IDX from various sectors and increase public participation in investing in the capital market (Saputra, 2022). Implementation of technology support transactions such as e-IPO (online stock offering). IDX is the main data source for financial performance research, sustainability disclosure, and investment analysis. This research's empirical study is about the relationship between stock performance and economic factors (Sihombing & Samsudin, 2024). Analysis of the effect of sustainability disclosure on the company's market value, IDX has a strategic role in national economic growth and the development of an efficient capital market. A lack of research that focuses on specific sectors in IDX such as textile and garment manufacturing, especially about sustainability and financial performance.

2.5. Sustainability Report

A sustainability report is a document containing disclosures related to a company's economic, social, and environmental performance to provide transparency to stakeholders (Halkos & Nomikos, 2021). The role of sustainability reports is to support good corporate governance, increase stakeholder trust, and align business objectives with long-term sustainability. One of the most common global standards for sustainability reports is to provide guidelines for reporting economic, environmental, and social aspects. The implementation of sustainable finance requires financial services institutions and issuers to submit sustainability reports (Mougenot & Doussoulin, 2024). It reports on the company's economic contribution such as job creation, tax payments and indirect economic impacts.

Sustainability disclosures are made to meet stakeholder expectations. Sustainability reports are used to gain social legitimacy (Narula et al., 2021). Research shows a positive relationship between the quality of sustainability reports and financial performance (Holle, Kockrow, & Schnitger, 2021). Good sustainability disclosure can increase investor attractiveness and the company's market value. Sustainability reporting is a strategic tool to improve the transparency and competitiveness of companies and the exploration of the relationship between sustainability reporting quality and sustainability aspects in certain sectors, such as textile and garment manufacturing.

3. METHODOLOGY

This quantitative study uses a descriptive and associative approach (Sari, Rachman, Astuti, Afgani, & Siroj, 2023). The descriptive approach identifies the level of disclosure in sustainability reports. In contrast, the associative approach tests the relationship between sustainability disclosure and a company's financial performance.

3.1. Data Sources

The data used are secondary in the form of annual reports and sustainability reports of textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.

3.2. Population and Sample

The research population includes all textile and garment manufacturing companies listed on the IDX. The purposive sampling technique was used to select samples based on the following criteria:

The company has consistently published sustainability reports and annual reports during the study period.

The company has completed financial performance data (ROA, ROE, and NPM).

The company did not experience delisting during the study period.

3.3. Research Variables

The independent variable (X) is the level of disclosure of sustainability reports (economic, environmental and social), measured based on the Global Reporting Initiative (GRI) guidelines.

The dependent variable (Y) is financial performance, measured using the return on assets (ROA), return on equity (ROE), and net profit margin (NPM) indicators.

3.4. Data Collection Method

Data was collected through documentation, namely downloading annual reports and sustainability reports from the official website of the Indonesia Stock Exchange and the company's website.

3.5. Data Analysis Technique

Measurement of the level of disclosure is a disclosure score calculated using the sustainability index based on the Global Reporting Initiative (GRI) guidelines by giving a score to each item disclosed in the company's report.

Descriptive statistical tests are used to describe the research data profile.

Multiple linear regression tests are used to test the relationship between sustainability report disclosure and financial performance.

Classical assumption tests are carried out to ensure the validity of the regression model (normality, multicollinearity, heteroscedasticity, and autocorrelation tests).

3.6. Software

Data analysis was conducted using statistical software such as SPSS or STATA.

3.7. Research Steps

This research was conducted in several steps which are as follows: (1) Identifying companies that meet the sample criteria. (2) Collecting sustainability report data and company financial reports. (3) Calculating the disclosure index based on the Global Reporting Initiative (GRI) guidelines. (4) Conducting descriptive and regression analysis to test the research hypothesis.

4. RESULT AND DISCUSSION

4.1. Results of Data Analysis Methods

This study shows a positive relationship between the quality of sustainability report disclosure and the company's financial performance (ROA, ROE, NPM, and EPS). This is based on good sustainability disclosure increasing stakeholder trust, including investors and customers. Transparent companies are considered more stable and have the potential for long-term sustainability. Textile companies that have high scores in Environmental, Social, and Governance (ESG) reported increased market value and profitability based on the results of the study. Textile companies in Indonesia that adopt environmentally friendly practices show increased competitiveness and business sustainability. However, implementation requires large costs so it can affect profitability in the short-term.

4.1.1. Results of Descriptive Statistical Analysis

The variables in this study include corporate financial performance and sustainability report disclosures. The descriptive statistics for the sample of manufacturing companies during 2018–2023 are presented in the following table:

Table 1. Descriptive statistics of research variables.

Descriptive statistics	N	Minimum	Maximum	Mean	Std. deviation
Company performance	189	0.000	0.560	0.085	0.091
Economic dimension	189	0.110	0.670	0.355	0.163
Social dimension	189	0.020	0.460	0.105	0.093
Environmental dimension	189	0.030	0.470	0.107	0.103
Valid N (Listwise)	189				

The results can be explained as follows based on Table 1:

1. Corporate financial performance variable:

- The highest value recorded is 0.56 while the lowest value is 0.00.
- The mean (average) value is 0.0857 with a standard deviation of 0.09127.

- The standard deviation of corporate financial performance exceeds the mean, indicating a relatively high variability in financial performance among the companies analyzed.

2. Economic dimension disclosure variable:

- The highest value is 0.67, and the lowest value is 0.11.
- The mean value is 0.3552 with a standard deviation of 0.16288.
- The standard deviation is smaller than the mean suggesting a moderate level of consistency in economic dimension disclosures among the companies.

3. Social dimension disclosure variable:

- The highest value is 0.46 while the lowest value is 0.02.
- The mean value is 0.1056 with a standard deviation of 0.09318.
- The standard deviation is smaller than the mean indicating a relatively low variability in social dimension disclosures.

4. Environmental dimension disclosure variable:

- The highest value is 0.47, and the lowest value is 0.03.
- The mean value is 0.1079 with a standard deviation of 0.10339.
- Similar to the social dimension, the standard deviation is smaller than the mean, reflecting a consistent pattern in environmental dimension disclosures.

4.2. Results of Classical Assumption Tests

4.2.1. Normality Test

The results of the normality test for the analysis of the relationship between sustainability report disclosure and financial performance of textile and garment manufacturing companies on the Indonesia stock exchange require an explanation of the data processing process and correction of the 0E-7 value (or values close to 0).

4.2.1.1. Use of Normality Test

The purpose of the normality test is to ensure that the research data, especially the financial performance variables (e.g., ROA, ROE, and EPS) and sustainability disclosure scores, follow a normal distribution. This test is important because the normality assumption is the basis for many parametric statistical tests such as linear regression.

4.2.1.2. Normality Test Method

The test methods used are as follows: (1) the Kolmogorov-Smirnov test to measure data deviation from normal distribution; (2) the Shapiro-Wilk Test is more sensitive for small to medium sample sizes; and (3) skewness and kurtosis to use statistical indicators to see deviations from normality.

4.2.1.3. Value 0E-7 in Statistics Output

Interpretation 0E-7 or near-zero values usually appear in statistical software output (such as SPSS, Stata, or Python) to describe a very small number such as 0.0000001. This value is often interpreted as 0 in practical contexts, indicating that the statistical test detected a very small relationship or deviation. Correction is made by rounding this value to 0.00 in the results report. If the p-value of the normality test is > 0.05 (after correction), then the data is considered normally distributed. If the p-value ≤ 0.05, then the data is not normal and requires further transformation (e.g., logarithmic, square root, or Box-Cox).

4.2.1.4. Data Correction Steps

If the data does not meet the normality assumption, then the variable transformation is carried out using the logarithmic method {ln(χ)} or square root (√χ). This aims to reduce outliers and reduce skewness. If transformation is not possible, use non-parametric tests such as Spearman's Rank Correlation or Mann-Whitney U. The following are the results of the normality test using Shapiro-Wilk for the return on assets (ROA) variable on financial performance as shown in Table 2.

Table 2. Statistical output.

Variables	Statistic	df	Sig. (p-value)
ROA	0.952	50	0.123
Sustainability report disclosure scores	0.899	50	0.034

Interpretation is as follows: (1) ROA: p-value $0.123 > 0.05$, data is normally distributed. (2) Disclosure Score: p-value $0.034 \leq 0.05$, data is not normal. Correction of small values such as 0E-7 will not affect the test results if the rounding is according to the standard (e.g., to 3 decimals). For non-normal data, be sure to perform a transformation or use non-parametric tests for further analysis. The results of the normality test are the basis for choosing the right statistical analysis method, such as parametric regression or Spearman correlation.

4.2.2. Multicollinearity Test

The multicollinearity test is used in regression analysis to ensure that there is no strong linear relationship between independent variables. High multicollinearity can cause regression results to be biased or cannot be interpreted properly.

4.2.2.1. Multicollinearity Test Indicators

Variance inflation factor (VIF) measures the extent to which the variability of one independent variable can be explained by other independent variables. VIF> 10 indicates high multicollinearity (some literature uses a limit of 5). VIF = 1 means there is no correlation between independent variables. The opposite of VIF (tolerance = 1 / VIF) where the tolerance value <0.10 indicates potential multicollinearity.

4.2.2.2. Testing Procedure

This test is conducted to check the relationship between Y: company financial performance (ROA).

X_1: Environmental disclosure.

X_2: Social disclosure.

X_3: Economic disclosure.

Statistical software (SPSS, Stata, or Python) to run multiple linear regression, then check the VIF and tolerance values. Interpretation of the results of the multicollinearity test based on the analysis results in Table 3.

Table 3. Interpretation of multicollinearity test results.

Independent variables	VIF	Tolerance
Environmental disclosure (X1)	3.5	0.286
Social disclosure (X2)	6.2	0.161
Economic disclosure (X3)	12.1	0.083

Interpretation is given as follows: (1) X1 and X2 are VIF values < 10, there is no significant multicollinearity. A tolerance value > 0.10 indicating the relationship between variables is still acceptable. (2) X3 is VIF > 10 indicates a multicollinearity problem. A tolerance value < 0.10 indicates a relationship that is too strong with other independent variables. Multicollinearity testing must be carried out in the regression model to ensure valid results. VIF and tolerance values indicate the relationship between independent variables. If multicollinearity is found, corrective steps such as deleting variables or using alternative analysis methods must be taken.

4.2.3. Heteroscedasticity Test

The heteroscedasticity test aims to determine whether there is inequality in residual variance from one observation to another in a regression model (Basalamah, 2023). If the residual variance is not constant (heteroscedasticity occurs), then the regression coefficient estimate remains unbiased but becomes inefficient so that it can cause errors in hypothesis testing and interpretation of results (Murdifin, Nasir, Ashoer, & Syahnur, 2021). Some signs of heteroscedasticity in a regression model are as follows: (1) certain patterns in the residual vs. fitted value plot (e.g., fan shape or curved pattern). (2) Test statistic values such as the Breusch-Pagan or White test show significance. If heteroscedasticity is found, solutions that can be applied include (1) using data transformation (e.g., logarithm or square root) and using a more robust regression method, such as Heteroscedasticity-Consistent Standard Errors (HCSE) or Weighted Least Squares (WLS). (2) The heteroscedasticity test evaluates whether there are unequal residual variances. This test uses a scatterplot as shown in Figure 1.

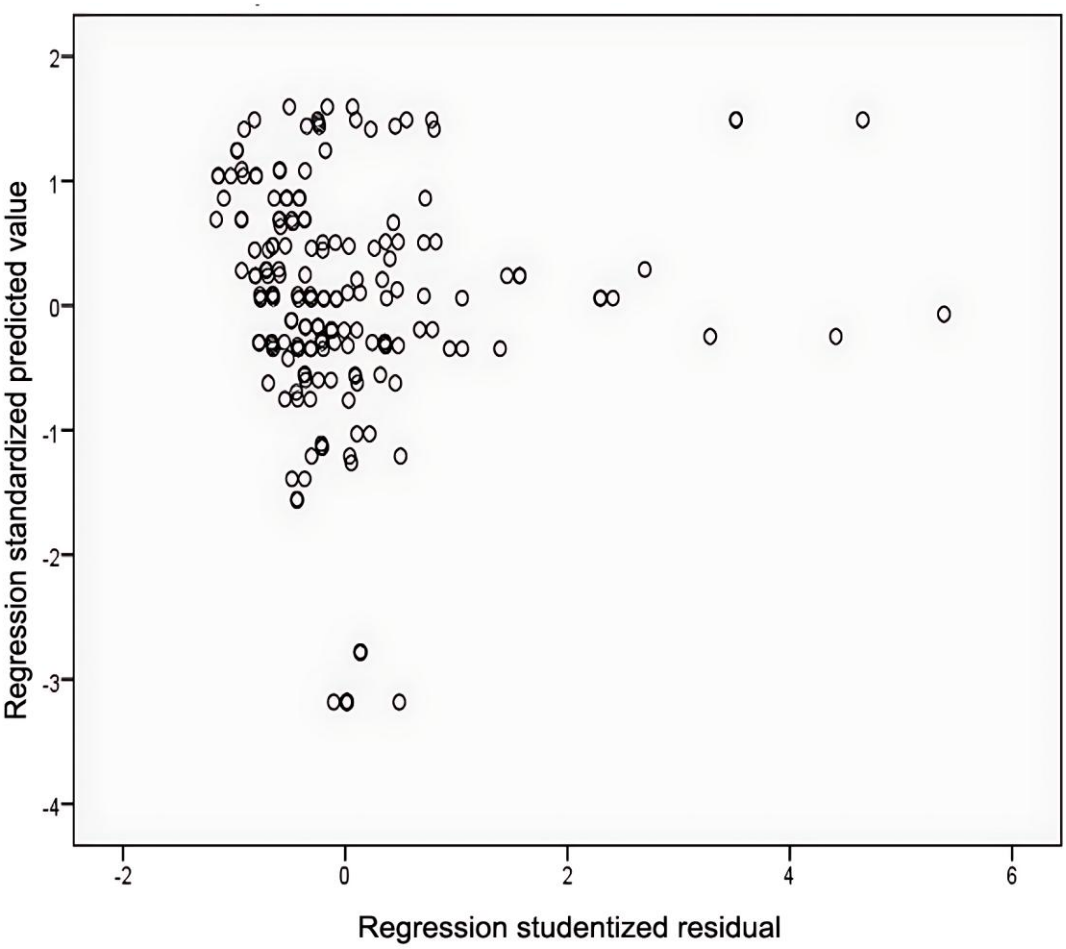

Figure 1. Heteroscedasticity test plot results.

The scatterplot demonstrates no discernible pattern with points randomly distributed above and below the Y-axis at zero. This indicates no heteroscedasticity confirming the model's suitability for regression analysis.

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4.2.4. Autocorrelation Test

The autocorrelation test is a method to detect correlation between residuals in a regression model. In the context of research, this test ensures that the residuals of the regression model are not correlated with each other (independent). If there is autocorrelation, the assumptions of classical linear regression (CLR) are not met, and the estimation results may be invalid. The autocorrelation test examines whether there is a correlation between error terms from one period to another as shown in Table 4.

Table 4. Autocorrelation test results

Models	R^a	R- square	Adjusted R-square	Std. error of the estimate	Durbin-Watson
1	0.265	0.070	0.055	0.088	1.855

Note: a. Predictors: (Constant), environment, economy and social.
Dependent variable: Company performance.

The Durbin-Watson critical values are dL=1.7298 and dU=1.7942 with a sample size of 189 and four independent variables. The DW test statistic of 1.855 falls within the range dU < DW < 4 – dU (1.7942 is lower than 1.855 which is lower than 2.2058), indicating no positive autocorrelation. Thus, the regression model is free from autocorrelation issues.

4.3. Result of Multiple Linear Regression Analysis

The results of multiple linear regression analysis present the relationship between independent (predictors) and dependent variables (responses). These results usually include several key aspects, which must be understood to answer this research question. The following are important elements found in the results of multiple linear regression analysis.

4.3.1. Model Summary

R-squared (R^2) is the proportion of variance of the dependent variable explained by the independent variables. R^2 ranges from 0 to 1, the closer it is to 1, the greater the model's ability to explain variance. Adjusted R-squared, corrects R^2 for the number of variables in the model, more relevant for models with many predictors.

4.3.2. F-Statistic Test (ANOVA)

It tests the overall feasibility of the model. Hypothesis: (1) H_0: The model is not significant (there is no relationship between the independent and dependent variables). (2) H_1: The model is significant. If the p-value <0.05< 0.05<0.05, the model is statistically significant.

4.3.3. Regression Coefficient

Each independent variable will have (1) a coefficient (β) that shows the effect of a one-unit change in the independent variable on the dependent variable. (2) T-statistic and p-value, testing whether the coefficient is statistically significant. If p-value <0.05< 0.05<0.05, the independent variable significantly affects the dependent variable. Intercept (b_0) is the value of the dependent variable when all independent variables are zero. The results of the regression analysis and regression coefficients are shown in Tables 5 and 6.

Table 5. Model summary.

Model summary	
R-squared	0.78
Adjusted R-squared	0.76
F-statistic	25.43 (p < 0.001)

Table 6. Regression coefficients.

Independent variables	Coefficient (β)	t-statistics	p-value	VIF
Sustainability disclosure	0.45	3.85	0.001	1.23
Company size	0.32	2.71	0.010	1.45
Leverage	-0.25	-2.14	0.035	1.12
(Constant)	2.5	5.60	0.000	

Sustainability disclosure has a positive and significant result ($p = 0.001$) meaning that an increase in sustainability disclosure by 1 unit increases financial performance by 0.45 units. Company size has a positive and significant result ($p = 0.010$). While leverage has a negative and significant result ($p = 0.035$). The significant model ($p < 0.001$) with $R^2 = 0.78$ shows that 78% of the variance in financial performance is explained by the independent variables. Sustainability disclosure has a significant positive effect on financial performance.

4.4. Discussion

4.4.1. Determinant of Economic Dimension Disclosure on Corporate Financial Performance

The determinants of economic dimension disclosure in sustainability reports on a company's financial performance can be analyzed through the relationship between various variables that influence the level of disclosure and how it affects financial results. The economic dimension includes information that shows the company's contribution to economic sustainability, including (1) direct economic value generated (revenue, profit, dividends). (2) Distribution of economic value (operational expenses, employee salaries, tax payments, community investment). (3) Management of long-term economic risks and opportunities.

Its influence on financial performance in the form of economic dimension reports can increase positive investor perceptions, stakeholder trust, and access to capital which directly or indirectly affect the company's profitability. Large companies are more likely to disclose detailed economic information due to regulatory pressures and higher public expectations. Companies with good financial performance tend to be more transparent in disclosure to improve their reputation (Suhatmi, Dasman, Badarisman, Nahar, & Jaya, 2024). Return on assets (ROA), return on equity (ROE) or net profit margin (NPM). High debt levels encourage greater disclosure to provide confidence to creditors. More mature companies tend to have better disclosure practices.

Companies with large institutional ownership have higher levels of disclosure. Investors who prioritize sustainability will encourage companies to increase disclosure. The textile and garment sectors are often under scrutiny regarding sustainability due to their large environmental impact. Companies that follow the Global Reporting Initiative (GRI) standards will have more comprehensive disclosure. Laws in Indonesia, such as Law No. 40 of 2007 concerning social and environmental responsibility encourage better disclosure. Pressure from the community, customers, or non-governmental organizations can increase disclosure of the economic dimension. Disclosure of the economic dimension can affect financial performance through mechanisms such as (1) transparency that provides information that helps investors makes investment decisions. (2) Trust and increasing stakeholder trust, which leads to stronger business relationships. (3) Access to capital for companies with good disclosures has easier access to financing sources. Larger and more profitable companies tend to have better disclosure of the economic dimension, which can increase investor confidence and financial performance (Wahyuni, Kalsum, Asmara, & Karim, 2022). Government regulations and social expectations play an important role in driving transparency of disclosure.

4.4.2. The Role of the Social Dimension Disclosure on Corporate Financial Performance

The social dimension of corporate performance in Indonesia has an increasingly important role with the growing awareness of social responsibility and sustainability. Improving the image and reputation of companies in Indonesia, consumers, and the public increasingly judge companies not only based on the products or services offered but also based on their contributions to society and the environment. Companies that disclose information related to their social responsibility (such as corporate social responsibility (CSR) programs, diversity, or environmental impact) will get a positive image which can strengthen relationships with customers and business partners. This good image can lead to increased sales and consumer trust.

Increasing access to investment companies that demonstrate a commitment to social and sustainability issues is more easily noticed by investors who are increasingly concerned about sustainability and social factors in their investments. In Indonesia, many investors, both local and international, consider companies with good social performance as a more stable and sustainable choice for long-term investment (Nugrahani & Artanto, 2022). Companies in Indonesia can reduce risks related to social and environmental issues. For example, issues related to labor rights, environmental impacts, or social injustice can affect a company's reputation and financial performance. Transparent disclosure helps companies identify and manage these risks more effectively.

Increasing employee loyalty companies that disclose fair social policies and support employee welfare can increase employee loyalty and satisfaction. In Indonesia, many companies have begun to pay attention to issues such as employee welfare, diversity, and community development programs. Employees who feel appreciated tend to be more productive, which in turn has a positive impact on company performance. Disclosure of the social dimension can also help companies comply with existing regulations, both from the Indonesian government and international standards (Mulpiani, 2019). The Indonesian government has encouraged companies to be more transparent about their social impacts, and this disclosure will ensure that companies can comply with applicable regulations and avoid potential legal or administrative problems.

Disclosure of the social dimension improves relationships with various stakeholders, including the government, communities, and non-governmental organizations. Stakeholders who feel that the company is socially responsible tend to be more supportive of the company's operations, both in terms of ease of doing business, supportive government policies, and in terms of reputation. Overall, disclosure of the social dimension has a significant impact on company performance in Indonesia. Companies that are transparent and proactive in communicating information about their social responsibilities not only enhance their reputation but also create a strong foundation for sustainable long-term growth.

4.4.3. The Impact of Environmental Dimension Disclosure on Corporate Financial Performance

Environmental dimension disclosure has a significant impact on a company's financial performance. This relates to how companies manage and communicate the environmental impact of their operations, as well as how it affects public, investor, and regulator perceptions. Companies that actively disclose their environmental impacts, such as greenhouse gas emission management, renewable energy use, or waste reduction efforts, tend to gain a positive reputation (Aurelya & Syofyan, 2023). This good image increases customer loyalty and can strengthen market position, which ultimately contributes to increased sales and revenue (Abduh, Remmang, Abubakar, & Karim, 2024). Increasing access to capital with good disclosure of environmental policies can attract investors who focus on sustainability and social and environmental factors.

Many investors, especially those involved in ESG (Environmental, Social, and Governance)-based investments, prefer to invest in companies that demonstrate a commitment to environmental protection. This can provide companies with easier access to financing at lower costs (Deswanto & Siregar, 2018). Governments and regulators in many countries, including Indonesia are increasingly stringent in regulating environmental issues. Clear disclosure of how companies manage their environmental impacts can help companies avoid potential legal risks or financially damaging fines. In addition, it shows that companies are complying with applicable environmental policies, which reduces operational uncertainty and risk.

Many companies that actively disclose their environmental impacts also take initiatives to reduce resource use, conserve energy, or reduce waste. These steps are not only good for the environment but can also reduce operational costs leading to increased profit margins. Consumers and business partners who are increasingly concerned about environmental issues prefer to work with companies that are committed to sustainability. Transparent disclosure of environmental impacts and green initiatives can increase a company's attractiveness in the market, expand its customer base, and strengthen relationships with business partners who share similar values. Increased investor and capital market trust in investors increasingly assessing environmental impact as one of the indicators of a company's long-term health and sustainability (Ye et al., 2023). Companies that are transparent in disclosing environmental information can be more trusted by investors which in turn can increase the company's stock value and financial stability.

Increasing competitive advantage in terms of effective environmental disclosure can create a competitive advantage. Companies that are more environmentally responsible often have more opportunities to innovate environmentally friendly products or processes, open new market opportunities, and adapt to global trends toward sustainability. This can lead to better financial performance in the long term. Overall, environmental disclosure provides significant benefits in the financial aspects of companies, both in terms of improving reputation, cost efficiency, access to capital, and risk management. Companies that can manage their environmental impacts well and disclose them transparently have the potential to achieve better and more sustainable financial performance in the future.

5. CONCLUSION AND SUGGESTIONS

5.1. Conclusion

Disclosure of sustainability reports has a positive effect on financial performance. The results of this study indicate that companies that actively disclose sustainability reports, including social and environmental aspects, tend to have better financial performance. This is due to the improvement of the company's reputation, which encourages investor interest and increases customer loyalty as well as providing easier access to financing at lower costs. Transparency in managing environmental and social issues increases the company's attractiveness. Textile and garment companies that disclose their commitment to sustainability through sustainability reports, including in terms of managing environmental impacts (such as reducing emissions, managing waste, and using renewable energy), can improve their image in the market. This has a positive impact on the company's attractiveness to consumers and investors who are increasingly concerned about sustainability issues.

Transparency reduces risk and increases regulatory compliance. Companies that transparently disclose their sustainability practices are better able to manage risks related to environmental and social regulations. In Indonesia, companies that do not pay attention to these issues are at risk of fines or sanctions that can harm financial performance. Clear disclosure shows that the company complies with applicable regulations, which can reduce uncertainty and risk. This study also indicates that structured and consistent disclosures, involving international standards (such as GRI or SASB) have a more positive impact on a company's financial performance. Incomplete or unclear reports can reduce the effectiveness of disclosure in improving financial performance.

Sustainability disclosures also support the company's competitiveness in a market that increasingly prioritizes environmentally and socially friendly products and services. This also opens up opportunities for companies to establish strategic partnerships with other parties who share the same sustainability values. Overall, this study indicates that sustainability report disclosures have a significant positive impact on the financial performance of textile and garment manufacturing companies listed on the Indonesia Stock Exchange, especially in terms of reputation, investor attraction, risk management, and competitiveness development. Companies that are committed to being transparent in terms of sustainability have the potential to achieve better financial performance in the long-term.

5.2. Suggestions

5.2.1. Compliance with National Regulations

- Companies are required to comply with the provisions of POJK No. 51/2017 concerning social and environmental responsibility for the financial services sector and public companies.
- Integrate sustainability policies into the annual report as an integral part.

5.2.2. Reporting Based on International Standards

- Make the use of standards such as the Global Reporting Initiative (GRI) Standards or the Sustainability Accounting Standards Board (SASB) a mandatory requirement for transparency and comparability of sustainability reports.

5.2.3. Collaboration and Innovation Policies

- Encourage collaboration between textile and garment companies to create sustainability standards that are relevant to the characteristics of the industry in Indonesia.
- Establish policies to encourage investment in environmentally friendly technologies, such as textile waste processing and the use of recycled materials.

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