

## **SUSTAINABILITY REPORTING AND SUSTAINABLE GROWTH RATE: COVID-19 AS MODERATING VARIABLE**

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### **Abstrak**

*Riset ini dilakukan untuk mengungkapkan pengaruh pelaporan keberlanjutan terhadap sustainable growth rate perusahaan, serta apakah situasi pandemi COVID-19 memoderasi pengaruh tersebut. Penelitian ini didasari dengan adanya value creation dari pelaporan keberlanjutan yang berhubungan erat dengan pertumbuhan perusahaan secara jangka panjang, namun ditemukan masih minimnya penelitian yang menghubungkan pelaporan keberlanjutan dengan sustainable growth rate, sebagai salah satu alat krusial untuk mengukur pertumbuhan perusahaan. Variabel moderasi COVID-19 juga diikutsertakan karena rentang waktu penelitian 2018 - 2020 mencakup periode 2020 sebagai tahun dimulainya COVID-19 merebak di Indonesia. Data penelitian ini bersumber dari laporan keuangan dan laporan keberlanjutan perusahaan yang terdaftar di BEI dengan sampel penelitian yang berjumlah 43 perusahaan. Hasil penelitian ini menunjukkan bahwa pelaporan keberlanjutan berpengaruh signifikan terhadap sustainable growth rate dengan arah pengaruh yang bervariasi tergantung dimensi pelaporan keberlanjutan berdasarkan GRI Standards, yaitu pengaruh positif oleh dimensi ekonomi dan lingkungan, dan pengaruh negatif oleh dimensi sosial. Di samping itu, penelitian ini juga membuktikan pandemi COVID-19 memoderasi hubungan pelaporan keberlanjutan dimensi ekonomi, lingkungan, dan sosial dengan sustainable growth rate. Penemuan ini dapat berguna bagi berbagai pihak, terutama manajemen perusahaan, dalam merencanakan strategi keuangan dan kegiatan pelaporan keberlanjutan untuk mengoptimalkan value creation yang dapat dihasilkan.*

**Kata Kunci:** *Pandemi COVID-19; Pelaporan Keberlanjutan; Sustainable Growth Rate; Value Creation.*

### **Abstract**

*This research is conducted to demonstrate the impact of sustainability reporting on the sustainable growth rate, as well as to prove whether the COVID-19 pandemic situation moderated this impact. The background of this research is that the value creation of sustainability reporting is closely related to the company's long-term growth. However, it is found that research connecting sustainability reporting to sustainable growth rate, as one of the crucial tools to measure growth, is still very rare. The moderating variable COVID-19 is also included because the research period 2018 - 2020 covers the 2020 as the year the COVID-19 outbreak began in Indonesia. The data are sourced from financial and sustainability reports of companies listed on the IDX with a final*

*sample of 43 companies. The result of this research shows that sustainability reporting has a significant impact on sustainable growth rate in various directions according to the sustainability reporting dimensions based on GRI Standards: positive influence by economic and environmental dimensions, and negative influence by social dimension. Besides, this research also finds that the COVID-19 pandemic moderates the relationship between the economic, environmental, and social dimensions of sustainability reporting and sustainable growth rate. These findings are useful for various parties and organizations, especially company management, in planning financial strategies and sustainability reporting activities to optimize the value creation that can be generated.*

**Keywords:** *COVID-19 Pandemic; Sustainable Growth Rate; Sustainability Reporting; Value Creation.*

**JEL Classification :** C12, C13, C31, D22, G32, L25, M14, Q01, Q56

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## **INTRODUCTION**

Growth has become a demanding goal for the majority of companies. In addition, growth is always included in considering a company's performance in order to calculate the value of the company (Arora et al., 2018). Thus, it is not surprising that many companies are targeting high sales and financial growth. However, the company's growth must also be considered in terms of the source of funding. If the company experiences financial growth that is too high and funded from debt, then the company can be at risk of experiencing liquidity and solvency problems. However, if the company experiences financial growth that is too low, then the company may also be at risk of bankruptcy because it cannot optimize the use of its resources. Here lies the role of the sustainable growth rate (SGR) which can help companies identify their growth problems. Therefore, companies must include sustainable growth rate calculation in measuring their performance (Nasim & Irnama, 2015; Nastiti et al., 2019).

Sustainable growth rate is the maximum sales growth a company can achieve without running out or withstand any depletion of financial resources (Mamilla, 2019). Although sustainable growth rate is very important to note, research on sustainable growth rate is currently still very rare. In fact, the calculation of the sustainable growth rate can be very helpful for the company, especially in ensuring the survival of the company to prevent the company from experiencing financial problems.

According to Oktarina (2018), the condition of the company experiencing financial problems can be referred to as financial distress. One of the financial distress conditions is the COVID-19 pandemic where various financial problems occur in the company. The COVID-19 pandemic has created negative impacts on companies in the form of declining revenues, disruption of working capital and cash flow, et cetera. Companies also cannot depend on banks for debt, nor can they fully rely on the government which is also in a dilemma overcoming the epidemic as well as various problems caused by COVID-19 for subsidies and assistance (Didier et al., 2021). This

emphasizes that it is urgently needed to increase the attention to the calculation of sustainable growth rate because sustainable growth rate is useful in estimating the company's independence in relying on its internal funding, which can then help the company to be able to carry out financial planning more realistically because the calculations contain both operational and financial elements (Mamilla, 2019).

Sustainability reporting is proven to be able to generate benefits to companies, as described in the concept of value creation (Buallay, 2019; Yu & Zhao, 2015). The proof of this value creation can be seen from various studies that prove the positive impact of sustainability reporting on the company's financial performance (Anna & R.T., 2019; Fuadah et al., 2019; Uwuigbe et al., 2018). Although there have been many studies convincing the influence of sustainability reporting on financial performance, research connecting sustainability reporting with sustainable growth rate is still very limited. In fact, the value creation created by sustainability reporting is closely related to the long-term sustainability and growth of the company (Hristov et al., 2019).

Companies that have actual growth exceeding the sustainable growth rate will experience problems so they must improve the situation by changing their financial policies. On the other hand, the situation where a company possesses a sustainable growth rate higher than their actual growth may indicate that the company has a good opportunity to invest more money in order to increase dividends and other things (Higgins, 1977). Thus, the value creation intended in this research is the increase of sustainable growth rate because higher sustainable growth rate is more preferable compared to the opposite condition.

Because of the research gap being identified, the researchers aim to obtain empirical evidence on whether sustainability reporting influences sustainable growth rate. The sustainability reporting is then broken down into three dimensions based on GRI Standards, as the most prevalent sustainability reporting standard (KPMG, 2020). Therefore, the problems of this research are: (1) Does the economic dimension of sustainability reporting affect sustainable growth rate positively?; (2) Does the environmental dimension of sustainability reporting affect sustainable growth rate positively?; and (3) Does the social dimension of sustainability reporting affect sustainable growth rate positively?

Then, because the period in this research includes 2020 in which COVID-19 pandemic has started to occur, the researchers would also test whether the relationship between sustainability reporting and the sustainable growth rate is being influenced by COVID-19 with the following details: (4) Is COVID-19 pandemic able to moderate the relationship between the economic dimension of sustainability reporting and sustainable growth rate?; (5) Is COVID-19 pandemic able to moderate the relationship between the environmental dimension of sustainability reporting and sustainable growth rate?; and (6) Is COVID-19 pandemic able to moderate the relationship between the social dimension of sustainability reporting and sustainable growth rate?

## **LITERATURE REVIEW AND HYPOTHESIS**

### **Legitimacy Theory**

Legitimacy theory states that the process by which the social framework in which an entity exists has a continuous and active role to explain and support the existence of that entity (Suddaby et al., 2017). According to Devie et al. (2019), a company has contractual relationships with the societies in which it operates. The

company's operations must be based on the values that are upheld in that society. If a company harms this relationship, it will face huge losses and costs when society refuses to legitimize the existence of the company. Thus, the company must continue to strive to gain community legitimacy by carrying out various programs that can serve the interests of the community. By voluntary disclosure of activities, companies can gain legitimacy and then fulfill the social contract and gain support from the community. This is because people currently are becoming aware of and even very concerned about the environmental impacts caused by companies (Bini & Bellucci, 2020). This is also in line with the statement by Devie et al. (2019) that companies that possess a high level of CSR sustainability disclosure can create harmonious relationships with the public to gain the social legitimacy needed to maximize financial strength in generating profits.

### **Stakeholder Theory**

Every business can create and destroy different types of value to customers, suppliers, employees, and so on. Each of these stakeholders has their own profit maximization goals that they aim to achieve, such as customers want the lowest price from each transaction, suppliers want to maximize their profits, employees want to work as little as possible and get paid as much as possible, and so on. However, a company must be able to consider all stakeholders by looking at the interconnections and interdependencies of all of these (Freeman, 2015). According to Devie et al. (2019), stakeholder theory implies that all stakeholders have the right to obtain information about company activities that can influence their decision-making process. Each stakeholder can influence the use of economic resources used in the company's activities so it must be considered in the disclosure of company information in the annual report. Companies can build a positive reputation by building good relationships with stakeholders such as employees and the community. With increasing reputation, companies can experience an increase in share price and profitability (Taghian et al., 2015).

### **Agency Theory**

An agency relationship arises when one or more parties are appointed as agents to act on behalf of another party called the principal. An example of an agency relationship is an employer and employee. Problems in this relationship arise when the principal is difficult to monitor the actions of the agent. Even when it is possible to supervise agents, it is also uneconomical (Ross, 1973). In public companies, investors as principals entrust their wealth to be managed by managers as agents on the basis of contracts made. The growth of the company and the market value of the company to date can show that investors are not disappointed with the work of the agents even though there are a number of costs that must be incurred by agency relations problems (Jensen & Meckling, 1976).

As the appointed agent, the manager must be able to increase the wealth of the shareholders. This can be done by conducting sustainability reporting. This is because sustainability reporting can improve the company's ability in terms of the environment, human resources, and investor confidence (Jizi, 2017). Agency theory explains that voluntary disclosure of non-financial sustainability information can overcome the issue of information asymmetry. Sustainability activities carried out by management can also overcome management issues that tend to focus on short-term targets. This sustainability activity can create value to shareholders in the form of increased cash

flow in the future by increasing sales by increasing customer satisfaction, reducing costs due to cost-effective products and services, and reducing litigation risk, and so on (Rezaee et al., 2019).

### **Signaling Theory**

Signaling theory states that the company uses sustainability reports to communicate the results and impacts of the sustainability activities carried out. Companies that have good financial, social, and environmental performance results will be more motivated to disclose their performance. Therefore, sustainability reporting is a tool for companies to show the good sustainability performance that has been done. This is because companies with good sustainability performance want to differentiate themselves from companies that have less performance (Rezaee et al., 2019).

### **Sustainability Reporting**

Sustainability reporting is the practice of publicly reporting the impact of economic, environmental, and social practices, along with the positive and negative impacts of these practices on the realization of sustainable development targets (Global Sustainability Standards Board (GSSB), 2016). The impact of sustainability reporting to companies can be seen from two perspectives, namely the cost-of-capital reduction perspective which states that sustainability investments will only cause costs and then reduce the value of the company, and the value creation perspective which states that investments in sustainability will lead to competitive advantage and bring benefits to the company's financial performance (Buallay, 2019).

In sustainability reporting, the Global Reporting Initiative (GRI) plays a crucial role in helping companies develop reporting content. The use of GRI Standards as a sustainability reporting standard is also a strategic investment to provide a positive signal to external parties to reduce information asymmetry, build close relationships with stakeholders, and gain their support (Yang et al., 2021). To date, the GRI Standards are also the most dominant sustainability reporting standard with 73% usage by the largest global companies in 2020 (KPMG, 2020).

According to GRI Standards, sustainability reporting can be broken down into economic, environmental, and social dimensions. Economic dimension discusses the organization's impact on the economic conditions of stakeholders, and the economic system at local, national, and global levels. Environmental dimension of sustainability reporting discusses the organization's impact on living and non-living natural systems and includes existing ecosystems. Social dimension discusses the organization's impact on the social systems in which the company operates.

### **Sustainable Growth Rate**

The term sustainable growth rate or SGR was first introduced by Higgins (1977) who examined the relationship between financial policy and the growth experienced by companies. According to Higgins (1977), the sustainable growth rate is the maximum level of sales growth that can be achieved consistently with the existing financial policies. In other words, the sustainable growth rate is the percentage of annual sales growth without depleting the company's financial resources or without having to rely on financing activities, such as increasing company equity or debt. If sales exceed sustainable growth, it can result in losses in financial health. If sales are below sustainable growth, the company has the opportunity to increase dividends,

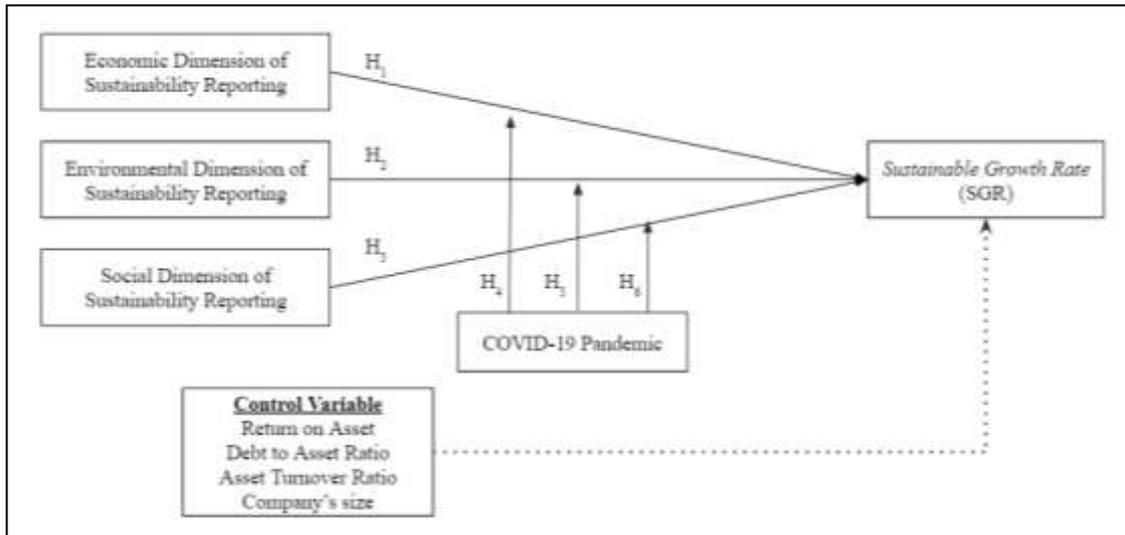
reduce leverage, and increase liquid assets. Meanwhile, according to Nastiti et al. (2019), a sustainable growth rate is the company's maximum growth rate based solely on internal funding, without additional financings, such as new investors or long-term debt.

Many company managers believe that higher growth is better, but rapid growth requires a large investment in fixed assets. This can create problems for companies, especially in crisis economic conditions where companies have to pay more because there is a debt burden. Here, the sustainable growth rate plays a role in providing managers with another view. A sustainable growth rate is a forward-looking approach that is useful in balancing operational and financial strategies (Arora et al., 2018). Mamilla (2019) states that companies need a sustainable growth rate to be able to survive in competitive competition. Measuring sustainable growth can help investors and analysts to calculate the maximum company growth rate using existing assets. The sustainable growth rate is very valuable because it combines operational elements (profitability and asset efficiency) and financial elements (capital structure and retention rate) so that future growth calculations can be more realistic.

Growth must be watched carefully because it does not always give a positive signal. The growth experienced should be studied further based on the factors causing the company's growth. If the company experiences financial growth by financing assets from high debt and does not pay attention to the balance of the financing with the profitability of assets, the company can experience liquidity and solvency problems. However, this also does not mean financial growth is a bad thing. If the company encounters low financial growth, the company is also at risk of bankruptcy because it cannot optimize the use of its resources. Therefore, companies must measure their performance using a sustainable growth rate (SGR) (Nasim & Irnama, 2015; Nastiti et al., 2019).

The sustainable growth rate is important to identify growth problems and evaluate the company's financial performance so that it can predict the company's sustainability in the future by focusing on the company's growth management. Companies operating above the sustainable growth rate have the potential to experience financial distress and even bankruptcy, on the other hand, companies operating below the sustainable growth rate run the risk of slow and even stagnant growth (Nastiti et al., 2019). With the emergence of measurement and research on sustainable growth, companies must realize that growth is not always a good thing, and realize that imposing growth can cause moral problems for companies (Higgins, 1977).

Based on the hypothesis developed in this research, the research framework of this research is illustrated as below:



**Picture 1**  
**Research Framework**

Source: created by the researchers

### Theoretical Framework and Hypotheses

Sustainability reporting is proven to be able to generate benefits to companies, which is in line with the value creation concept (Buallay, 2019; Yu & Zhao, 2015). The value creation can be in the form of a company's financial performance (Anna & R.T., 2019; Fuadah et al., 2019; Uwuigbe et al., 2018).

Sustainable value creation is closely related to the survival and growth of the company in the long run therefore the company's growth must be taken into account (Hristov et al., 2019). Higgins (1977) as the first pioneer of the sustainable growth rate said that companies that have actual growth exceeding the sustainable growth rate will experience problems so they must improve the situation by changing their financial policies. On the other hand, companies that have a sustainable growth rate higher than their actual growth may have a good opportunity to invest more money in increasing dividends and other things. Higgins (1981) also warns that if there is a decrease in the sustainable growth rate and companies respond by reducing the growth rate, then economic growth will be disrupted. Thus, an increase in the sustainable growth rate is what the company wants to achieve, compared to the opposite condition. Therefore, the researchers would like to emphasize that the value creation referred to in the previous paragraph is an increase in the sustainable growth rate, not a decrease in the sustainable growth rate.

The main broad hypothesis in this research is sustainability reporting has a positive influence on sustainable growth rate. Based on GRI Standards, sustainability reporting is broken down into three dimensions: economic, environmental, and social dimensions. Therefore, the researchers also break down the broad hypothesis based on sustainability reporting dimensions.

### The Effect of Economic Dimension of Sustainability Reporting on Sustainable Growth Rate

Disclosure of the economic dimension of sustainability has been shown to bring a series of benefits to companies, such as generating a positive influence on the company's financial performance (Anna & R.T., 2019; Ariantika & Geraldina, 2019;

Hardi & Chairina, 2019; Kasbun et al., 2016). Companies that disclose economic performance will be considered more transparent than financial performance. This is because stakeholders feel that economic performance is more accurate to use in predicting and analyzing information with lower risk (Hardi & Chairina, 2019). Ariantika & Geraldina (2019) and Anna & R.T. (2019) also found that reporting on the economic dimension is an important signal for investors because it can increase transparency, increase investor confidence, and increase corporate funding.

Although Oprean-Stan et al. (2020) found that sustainability reporting has no effect on sustainable growth, previous paragraphs have indicated some explanations about the relationship between sustainability reporting and its value creation, sustainable growth rate, and the benefits of the economic dimension of sustainability reporting. Therefore, the economic dimension of sustainability reporting may also actually bring value creation to companies in the form of an increase in sustainable growth rate.

H<sub>1</sub>: The economic dimension of sustainability reporting has a positive influence on sustainable growth rate (SGR)

### **The Effect of Environmental Dimension of Sustainability Reporting on Sustainable Growth Rate**

Disclosure of the environmental dimension of sustainability has been proven to bring a series of benefits to companies, such as generate a positive influence on the company's financial performance (Anna & R.T., 2019; Kasbun et al., 2016; Oncioiu et al., 2020; Zamil & Hassan, 2019). Companies that have low environmental performance will avoid disclosing information on the grounds of litigation risk which in turn will have a negative impact on the company's future (Carp et al., 2019). On the contrary, companies that have good environmental performance will have a good impact because environmental performance can positively affect financial performance (Devie et al., 2019; Hussain et al., 2018). This is also in line with the findings of Angelia & Suryaningsih (2015) that companies that get a gold PROPER rating (environmental performance rating in Indonesia) have environmental performance that has a significant effect on financial performance. This is because companies that have good environmental performance will get appreciation from the community and are reduced in terms of waste and pollution so that costs will be reduced and sales will increase. Correspondingly, sustainability reporting on the environmental dimension can increase customer trust, positive attention from stakeholders, and so on. This is in accordance with Radhouane et al. (2018) who found that reporting on the environmental dimension was favored by shareholders and consumers as indicated by an increase in reporting on the environmental dimension would lead to growth in sales and profits, up to firm value.

Contrary to previous paragraphs, Oprean-Stan et al. (2020) found that sustainability reporting has no relationship with sustainable growth. However, Oprean-Stan et al. (2020) also found that environmental aspects of sustainability influence sustainable growth rate positively. Previous paragraphs have indicated some explanations about the relationship between sustainability reporting and its value creation, sustainable growth rate, and the benefits of the environmental dimension of sustainability reporting. Therefore, the environmental dimension of sustainability reporting may also actually bring value creation to companies in the form of an increase in sustainable growth rate.

H<sub>2</sub>: The environmental dimension of sustainability reporting has a positive influence on sustainable growth rate (SGR)

### **The Effect of Social Dimension of Sustainability Reporting on Sustainable Growth Rate**

Disclosure of the social dimension of sustainability has been proven to bring a series of benefits to companies, such as generate a positive influence on the company's financial performance (Anna & R.T., 2019; Hussain et al., 2018; Kasbun et al., 2016; Luthan et al., 2018; Nurim & Asmara, 2019; Oncioiu et al., 2020). Hussain et al. (2018) found that companies that have good social performance can have a positive influence on their financial performance because the company's social performance can be a company's marketing strategy to create a good image which will contribute to increasing sales growth and company market value. This is in line with Carp et al. (2019) which states that social dimension sustainability reporting will attract public attention that the company has sympathy and empathy for the community, which in turn can increase public trust and even loyalty. This loyalty will ensure the continuity of the company's operations. Besides, social responsibility activities also can help companies create a good image and remove a bad image in the desired way (Kang et al., 2016).

Contrary to previous paragraphs, Oprean-Stan et al. (2020) found that sustainability reporting has no relationship with sustainable growth. However, Oprean-Stan et al. (2020) also found that social aspects of sustainability influence sustainable growth rate positively. Previous paragraphs have indicated some explanations about the relationship between sustainability reporting and its value creation, sustainable growth rate, and the benefits of the social dimension of sustainability reporting. Therefore, the social dimension of sustainability reporting may also actually bring value creation to companies in the form of an increase in sustainable growth rate.

H<sub>3</sub>: The social dimension of sustainability reporting has a positive influence on sustainable growth rate (SGR)

The COVID-19 pandemic has caused changes in the way companies realize their economic, environmental, and social goals which are carried out with sustainability activities and strategies. In addition, the COVID-19 pandemic has raised public expectations of sustainability activities that link economic, environmental, and social goals in an interdependent manner. If the company carries out sustainability activities as expected, the results will support the company's long-term sustainability because it can create a balance between profitability and stakeholder interests despite the impact of the COVID-19 pandemic (García-Sánchez & García-Sánchez, 2020).

The changes in the company's approach to sustainability may affect the value creation created by the company's sustainability movement which will be seen in changes in the sustainable growth rate. Thus, researchers hypothesize that the COVID-19 pandemic affects the relationship between sustainability reporting on the economic, environmental, and social dimensions with the sustainable growth rate (SGR).

### **The Effect of Economic Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

The crisis caused by the COVID-19 pandemic is very different from the various crises that have occurred previously (Didier et al., 2021). Goodell (2020) said that the

COVID-19 pandemic has become a “game-changer” for financial markets and is affecting business operations in terms of financing and cost of capital. This is supported by the findings by Chen et al. (2021) that the COVID-19 pandemic has caused various problems and operational failures, supply chain disruptions, decreased sales, and profitability. Chen et al. (2021) found that COVID-19 had a negative impact on the sustainable growth rate (SGR). This is based on two thoughts, namely the first thought that COVID-19 affects the company's strategic decisions, one of which causes companies to be more prudent and lose good investment opportunities, and the second thought that COVID-19 has a negative effect on company profitability, which is one of the determinants of sustainable growth rate (SGR).

Although in the previous section, the researchers hypothesize that reporting on the economic dimension has a positive effect on the sustainable growth rate (SGR), however, based on the existing research about COVID-19 impact, the relationship between the economic dimension and the sustainable growth rate (SGR) may be disrupted during the COVID-19 period. This is because the COVID-19 pandemic can significantly affect the company's financial policies. In fact, the basic definition of a sustainable growth rate (SGR) is a company's maximum sales growth consistent with existing financial policies. In other words, the sustainable growth rate (SGR) is the maximum sales growth without changing the existing financial policies at all. In addition, the COVID-19 pandemic has caused various fluctuations in financial performance, such as profitability, leverage, asset efficiency, and so on. Mamilla (2019), Nasim & Irnama (2015), Nastiti et al. (2019), and Wei et al. (2020) has previously proven the effect of this financial performance on the sustainable growth rate (SGR).

H<sub>4</sub>: The impact of the economic dimension of sustainability reporting on sustainable growth rate is moderated negatively by the COVID-19 pandemic.

### **The Effect of Environmental Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

Different things happen to the environmental dimension rather than that of the economic dimension during the COVID-19 pandemic. This is because the contexts that are focused on these two dimensions are different.

Rousseau & Deschacht (2020) found that the COVID-19 pandemic caused public support for programs that were engaged in creating a sustainable environment to increase. In addition, Rousseau & Deschacht (2020) also found that public awareness of nature increased during the COVID-19 crisis. The root cause of this phenomenon is that transportation flows are rapidly declining, and people are being encouraged and obliged to stay at home during the COVID-19 outbreak. This in turn will result in changes in human attitudes and lifestyles, as well as views and concerns for nature and the environment. On the other hand, COVID-19 has also resulted in people becoming increasingly concerned about the existence of environmentally friendly places and personal experiences that are closely related to the environment and nature in their daily activities. This in turn can affect the community's valuation and appreciation of natural resources.

The increasing public awareness and support for programs that are engaged in environmental sustainability issues since the onset of COVID-19 can cause people to prefer companies that conduct sustainability reporting. This is because according to signaling theory, companies reporting the environmental dimension are companies that

already have good environmental sustainability performance so that the company is more confident and more motivated to make related disclosures.

In contrast to the sustainability reporting of the economic dimension, the researchers hypothesize that the COVID-19 pandemic will strengthen the relationship between environmental sustainability reporting and the sustainable growth rate (SGR). This is due to increased awareness of the sustainability of the environmental dimension, which will help companies reporting on the environmental dimension to gain community legitimacy so that the environmental dimension can create value creation which will then appear in the form of a sustainable growth rate (SGR).

H<sub>5</sub>: The impact of the environmental dimension of sustainability reporting on sustainable growth rate is moderated positively by the COVID-19 pandemic.

### **The Effect of Social Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

Different things happen to the social dimension rather than that of the economic dimension during the COVID-19 pandemic. This is because the contexts that are focused on these two dimensions are different.

Broadly speaking, the context of the social dimension of sustainability reporting consists of a discussion of the company's influence on customers, suppliers, employees, and other issues. From the customer aspect, He & Harris (2020) found that the purchasing decisions of customers in choosing a product changed during the COVID-19 pandemic. This pandemic has provided an opportunity for customers to better understand their consumption and the impact of their consumption. Customers no longer just want to fulfill their daily needs, but customers prefer businesses that are socially active, prosocial, responsible, and care about the needs of society in general. Correspondingly, He & Harris (2020) said the way businesses market their products has also changed during the COVID-19 period than in the past. From the supplier aspect, Sarkis (2021) stated that the COVID-19 pandemic has an unprecedented effect on operations and supply chain processes. In addition, Sarkis (2021) stated that the COVID-19 pandemic provides a potential opportunity for supply chains that are still traditional in nature to evolve towards sustainability. From the employee aspect, Aguinis et al. (2020) found that the company's corporate social responsibility policy in responding to the COVID-19 pandemic was strongly influenced by individual employee perceptions of corporate and corporate social responsibility activities. Corporate social responsibility policies can bring positive benefits if the corporate social responsibility is embedded or integrated with the company's strategy, and can also bring negative benefits if it is only peripheral or not integrated with the company's strategy.

The COVID-19 pandemic provides broad opportunities for companies to be involved in various corporate social responsibility (CSR) activities (He & Harris, 2020). In addition, looking at various previous studies that show sustainability issues, especially social issues, which are increasingly prevalent for various stakeholders during the COVID-19 outbreak, the researchers hypothesize that the COVID-19 pandemic can strengthen the relationship between sustainability reporting on the social dimension and sustainable growth rate (SGR). This is because the impact of COVID-19 on the sustainability of the social dimension will affect the company's value creation process which will then appear in changes in the sustainable growth rate (SGR).

H<sub>6</sub>: The impact of the social dimension of sustainability reporting on sustainable growth rate is moderated positively by the COVID-19 pandemic.

## RESEARCH METHODS

### Research Design

The research design utilized in this research is to investigate the effect of the independent variable which is sustainability reporting to the dependent variable which is sustainability reporting with COVID-19 as moderating variable.

Besides, this research also has control variables consisting of profitability, leverage, asset turnover, and company's size. The return on asset variable is chosen as the proxy of profitability because it has been proven based on previous research to affect the sustainable growth rate (Nasim & Irnama, 2015; Nastiti et al., 2019; Wei et al., 2020). Then, debt to asset ratio, asset turnover and natural logarithm of total assets were also selected because of previous researches, which are Oprean-Stan et al. (2020) that examined sustainability reporting with SGR and Mamilla (2019) who proved the influence of these variables on the sustainable growth rate (SGR). And then, the dummy variable of the COVID-19 indicator was chosen because the data taken includes 2020 as the year affected by the COVID-19 pandemic (Didier et al., 2021; Wang et al., 2020).

### Variables and Measurement

**Table 1**  
**Variables and Measurement**

Variables	Symbol	Measurement
Sustainable Growth Rate	SGR	$SGR = \frac{ROE \times (1 - \text{Dividend Payout Ratio})}{1 - [ROE \times (1 - \text{Dividend Payout Ratio})]}$ (Arora et al., 2018)
Economic Dimension of Sustainability Reporting	SREC	These variables are measured using Sustainability Report Disclosure Index (SRDI), with the following steps: (1) Give the score for every index disclosed based on GRI Standards: 1 (one) if the index is disclosed and 0 (zero) if the index is not disclosed
Environmental Dimension of Sustainability Reporting	SRENV	(2) Determine the highest expected score for each dimension of sustainability reporting according to the total number of indexes in the GRI Standards: 31 for economic, 56 for environmental, and 97 for social dimensions
Social Dimension of Sustainability Reporting	SRSL	(3) Calculate the final score with the following formula: $SRDI = \frac{\text{Total Score (the disclosure conducted in Step 1)}}{\text{Highest Score (total index GRI Standards in Step 2)}}$ (Hardi & Chairina, 2019)
COVID-19	PERIOD	Value 1 (one) is given to the period during which the COVID-19 pandemic occurred, which in this study is the period 2020. Value 0 (zero) is given for the period there is no COVID-19 pandemic, which in this study is a period other than 2020, namely 2018 and 2019. (Wang et al., 2020)

Variables	Symbol	Measurement
Profitability	ROA	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$ (Nasim & Irnama, 2015; Wei et al., 2020)
Leverage	LEV	$LEV = \frac{\text{Total Debt}}{\text{Total Asset}}$ (Oprean-Stan et al., 2020)
Asset Turnover	AST	$AST = \frac{\text{Total Sales}}{\text{Average Total Asset}}$ (Mamilla, 2019; Nasim & Irnama, 2015)
Company's Size	SIZE	$SIZE = \ln \text{Total Assets}$ (Luthan et al., 2018; Mamilla, 2019)

Source: created by the researchers

### Population and Sample

The population in this research are companies listed on the Indonesia Stock Exchange (IDX) with the period 2018 – 2020. The sampling method used in this research is purposive sampling method, with the criteria are (1) companies listed on the Indonesia Stock Exchange (IDX) consistently during 2018 - 2020; (2) issued financial statements from 2018 to 2020; and (3) conducted sustainability reporting from 2018 to 2020 consistently based on GRI Standards.

### Method of Analysis Data

This research has two types of models: model I (without moderating variable) and model II (with moderating variable).

Model I:

$$SGR = \alpha + \beta_1 SREC + \beta_2 SRENV + \beta_3 SRSL + \beta_4 PERIOD + \beta_5 ROA + \beta_6 LEV + \beta_7 AST + \beta_8 SIZE + \varepsilon$$

Model II:

This research contains a moderating variable in several hypothesis, therefore this research also uses Moderated Regression Analysis (MRA) with the following formula:

$$SGR = \alpha + \beta_1 SREC + \beta_2 SRENV + \beta_3 SRSL + \beta_4 PERIOD + \beta_5 SREC * PERIOD + \beta_6 SRENV * PERIOD + \beta_7 SRSL * PERIOD + \beta_8 ROA + \beta_9 LEV + \beta_{10} AST + \beta_{11} SIZE + \varepsilon$$

The data processing is conducted using IBM SPSS 26. Tests conducted consist of goodness of fit, normality, autocorrelation, multicollinearity, and heteroscedasticity tests. The overall results of these tests show that the regression model I and model II of this research is good.

Based on the criteria that has been set, there are 43 companies which fulfill the criteria. Then, this research uses casewise diagnostics method in order to eliminate

some outliers in which a data is an outlier if it has a standard residual of more than three (Umar, 2019). Therefore, the final observational data is 120 with the detailed explanation as below:

**Table 2**  
**Casewise Diagnostics**

Case Number	Company (Year)	Std Residual	SGR	Predicted Value	Residual
6	SMCB (2018)	-3.091	-.11	.0749	-.18364
15	UNVR (2018)	3.204	.52	.1325	.38893
17	BUMI (2018)	5.172	.67	.0415	.62787
35	EXCL (2018)	-3.079	-.14	.0487	-.19033
58	UNVR (2019)	-3.666	-.22	.0597	-.27922
95	AUTO (2020)	3.562	.47	.0385	.43244
98	MLBI (2020)	3.310	.28	.0310	.25212
103	BUMI (2020)	-4.558	-.55	.0031	-.55330
109	BBKP (2020)	-3.700	-.27	.0091	-.28185

Source: data processed based on the regression output using SPSS 26

### Descriptive statistics analysis

Table 3 displays the descriptive statistics giving the characteristics (minimum value, maximum value, mean, and standard deviation) of each variable.

**Table 3**  
**Descriptive Statistics**

Variables	N	Minimum	Maximum	Mean	Std. Deviation
SGR	120	-.12	.23	.0573	.06066
SREC	120	.00	1.00	.4352	.20453
SRENV	120	.00	.98	.3874	.22545
SRSL	120	.00	.99	.3241	.18875
PERIOD	120	.00	1.00	.3250	.47034
SREC_PERIOD	120	.00	.94	.1487	.24735
SRENV_PERIOD	120	.00	.98	.1420	.24293
SRSL_PERIOD	120	.00	.99	.1161	.19895
ROA	120	-.02	.38	.0503	.06040
LEV	120	.13	.91	.5774	.22677

Variables	N	Minimum	Maximum	Mean	Std. Deviation
AST	120	.06	2.09	.5649	.42498
SIZE	120	27.53	34.95	31.3739	1.72966

Source: data processed based on the regression output using SPSS 26

Below is the definition of each variable written in Table 3:

SGR	: Sustainable Growth Rate
SREC	: Economic Dimension of Sustainability Reporting
SRENV	: Environmental Dimension of Sustainability Reporting
SRSL	: Social Dimension of Sustainability Reporting
PERIOD	: Period of the COVID-19 Pandemic
SREC_PERIOD	: Interaction of SREC and PERIOD
SRENV_PERIOD	: Interaction of SRENV and PERIOD
SRSL_PERIOD	: Interaction of SRSL and PERIOD
ROA	: Profitability
LEV	: Leverage
AST	: Asset Turnover
SIZE	: Company's Size

#### Overall model fit

The overall model fit test in this research uses two types of tests: Simultaneous Significant Test and Adjusted R Square.

**Table 4**  
**Model Fit Test**

Model	Sig.	Adjusted R <sup>2</sup>
1	0.003	.124
2	0.001	.173

Source: data processed based on the regression output using SPSS 26

Table 4 shows that the significance level of model I is 0.003 and for model II is 0.001. Because the significance level for both models is less than 0.05 or 5%, all the independent variables in model I and II simultaneously affect the dependent variable.

Besides, table 4 also shows that the adjusted R-square of model I is 0.124 which means the change of dependent variable that can be explained by all of the independent variables in model I is 12.4%. And, for model II is 0.173 which means the change of dependent variable that can be explained by all of the independent variables in model II is 17.3% which means the change of dependent variable that can be explained by all of the independent variables in model II is 17.3%.

With these results, it can be concluded that the model I and II pass the model fit tests.

#### Result of Hypothesis Testing

Table 5 displays the result of model I and II, as below:

**Table 5**  
**Hypothesis Testing**

	Model	B	T	Sig (1-tailed)	Result of Research
1	SREC	.067	1.815	.036	H <sub>1</sub> accepted
	SRENV	.077	2.201	.015	H <sub>2</sub> accepted
	SRSL	-.146	-3.017	.002	H <sub>3</sub> rejected
2	SREC_PERIOD	-.172	-2.402	.009	H <sub>4</sub> accepted
	SRENV_PERIOD	.085	1.322	.095	H <sub>5</sub> accepted
	SRSL_PERIOD	.128	1.318	.095	H <sub>6</sub> rejected

Source: data processed based on the regression output using SPSS 26

### **The Effect of Economic Dimension of Sustainability Reporting on Sustainable Growth Rate**

The result of this study supports the proposed hypothesis in which it shows that the economic dimension of sustainability reporting influences sustainable growth rate positively. This finding is in line with the concept of value creation.

In line with signal theory, the researchers suspect that companies that report on the sustainability of the economic dimension try to show that they have tried and even have good financial performance, as well as trying to contribute to the community's economy. In addition, the company's management may show that they are not focusing on short-termism or finance in the short term through sustainability reporting. These two things show that the company's management is also trying to show that they have considered long-term and mature financial planning as possible, including taking into account the sustainable growth rate as a crucial growth measurement in their planning. This is because companies operating above or below the sustainable growth rate can indicate that the company is experiencing financial problems or growth that is not optimal.

Continuing also from the signal theory where the company through sustainability reporting tries to show the activities carried out and the performance achieved in paying attention to its stakeholders, such as carrying out sustainable activities that have a positive impact on the surrounding community. Furthermore, stakeholder theory can also play a role where companies try to pay attention to the needs and interests of stakeholders in addition to seeking profits. Then, the researchers argue that this can further make companies gain legitimacy in which based on legitimacy theory, companies that pay attention to their stakeholders will gain legitimacy from these stakeholders which will then increase the company's value in the form of financial performance and so on. Furthermore, the researchers believes that the next thing that happens from value creation by sustainability reporting is in the form of increasing the sustainable growth rate desired by the company.

The main key to the results may lie in the possibility that the company manager as an agent has included the calculation of the sustainable growth rate in his financial planning, as well as making decisions based on the results of this calculation. This is because companies that carry out sustainability reporting tend to focus on long-term

issues. Finance in the long term has a relationship with sustainability where long-thinking companies tend to be aware of the importance of sustainability reporting and then carry out the sustainability movement. In addition, this relationship is also caused by the company having to generate new profitability and then being able to survive and carry out sustainability movements and reporting. Then, by disclosing this in the report, the shareholders and stakeholders become confident in the company and provide their legitimacy. This legitimacy then appears in the form of an increase in the sustainable growth rate.

### **The Effect of Environmental Dimension of Sustainability Reporting on Sustainable Growth Rate**

The result of this study supports the proposed hypothesis in which it shows that the environmental dimension of sustainability reporting influences sustainable growth rate positively. This finding is in line with the concept of value creation.

First of all, this result may be closely related to signal theory where companies that have better environmental performance will be more likely to be motivated to do sustainability reporting than companies that have low environmental performance. This is in accordance with Angelia & Suryaningsih (2015). Relating to the signal theory, the researcher argues that companies that report on the sustainability of the environmental dimension want to give a signal that the company is better in terms of performance and planning than companies that do not report on environmental dimension or have lower sustainability reporting, including in terms of conducting financial planning that involves the calculation of sustainable growth rate.

This is also closely related to stakeholder theory and legitimacy theory where companies can show their concern for stakeholders by trying to have good environmental performance. Thus, the company will gain legitimacy from the stakeholders. Furthermore, this will support its sustainability in the long term which is also closely related to the company's sustainable growth rate. The researchers also argue that the environmental dimension that is carried out will also overcome agency problems and conflicts of interest because sustainability reporting that has a good impact and will achieve the sustainability results expected by the company owners or principals.

The main key of this results may lie in making good-intentioned decisions from the company's management to strive for good environmental performance. This is a manifestation of the company's concern for its stakeholders, as well as a form of management responsibility as an agent and guardian of the company representing the owner or shareholder or principal. Then, the company conducts a sustainability report. By reflecting information about this in the sustainability report, shareholders and other stakeholders get information signals which then all of these stakeholders provide legitimacy to the company. Then, the researchers argue that this legitimacy will support the company's operations to finance which will then increase the sustainable growth rate.

### **The Effect of Social Dimension of Sustainability Reporting on Sustainable Growth Rate**

The result of this study is against the proposed hypothesis which shows that the social dimension of sustainability reporting influences sustainable growth rate

negatively. This finding is contrary to the concept of value creation and supports the cost-of-capital reduction concept.

As far as the researchers have studied, the results of this third hypothesis can be explained by Chen & Lee (2017) which found that the relationship of social sustainability is not linear, that is, it can be positive or negative. When starting a social sustainability movement, companies have to face the cost or opportunity costs without getting the benefits. At this time, stakeholders or the community have not seen that this company's business is something special, but rather a basic obligation that must be fulfilled by the company. At this point, the social sustainability movement has had a significant negative impact on corporate value. However, there will be a transition point where this sustainability investment will provide benefits that outweigh the costs. In other words, the marginal benefit exceeds the marginal cost slowly, which in the end will only increase the value of the company. Thus, as far as the researchers study the findings of Chen & Lee (2017), the researchers argue that companies that are part of the research data may still be at a stage before the intended transition point.

In addition, according to the researchers, the social dimension is more abstract, more difficult to fulfill and measure than the other dimensions. The economic dimension is more measurable and also has financial standards, such as IFRS. The environmental dimension also has more concrete rules and concepts, such as the Company Performance Rating Program in Environmental Management or PROPER made by the Minister of the Environment, Law no. 32 of 2009 concerning Environmental Protection and Management, Law no. 22 of 2001 concerning Oil and Gas, and so on. This is supported by the statement by Ikram et al. (2020) that the social dimension is dynamic, not easy to understand, and highly disruptive. In other words, the researchers argue that the sustainability of the social dimension is indeed not impossible to measure, but it is more difficult to measure specifically compared to the other sustainability dimensions, the economic and environmental dimensions.

### **The Effect of Economic Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

The result of this study supports the proposed hypothesis in which it shows that COVID-19 pandemic moderates the impact of the economic dimension of sustainability reporting on sustainable growth rate negatively. In other words, the result shows that COVID-19 pandemic is able to weaken the relationship between the economic dimension of sustainability reporting and sustainable growth rate.

The researchers argue that although the first hypothesis of this study is accepted which proves that reporting on the sustainability of the economic dimension creates value creation for the company in the form of an increase in the sustainable growth rate, the COVID-19 pandemic has dealt a blow to the company's financial performance, both in terms of sales and profitability. This condition may have the potential to force companies to significantly change their financial policies to adapt to crisis conditions. During the COVID-19 pandemic, various companies are experiencing financial problems, so the researchers argue that this condition can cause the company's economic sustainability performance to not run well. This can then have an impact on reporting on the sustainability of the economic dimension, as well as the value creation created.

The economic dimension can show the company has incorporated the calculation of sustainable growth rate into its financial planning and focuses on the

company's finance in the long term. The financial planning and policy may have to be changed and may become irrelevant in the COVID-19 crisis. Then, this condition has an impact on the relationship between the economic dimension of the sustainability reporting and the company's sustainable growth rate.

### **The Effect of Environmental Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

The result of this study supports the proposed hypothesis in which it shows that the COVID-19 pandemic moderates the impact of the environmental dimension of sustainability reporting on sustainable growth rate positively. In other words, the result shows that COVID-19 pandemic can strengthen the relationship between the environmental dimension of sustainability reporting and the sustainable growth rate.

The researchers argue that this result is in accordance with the findings by Rousseau & Deschacht (2020). According to the researchers, the increase in public support for programs to create a sustainable environment and public awareness of nature during the COVID-19 outbreak can place the environmental dimension of sustainability reporting into a more important position in the eyes of stakeholders in a positive way. This can further strengthen the relationship between environmental sustainability reporting and the sustainable growth rate because during COVID-19 times happens lots of situations that further encouraged the increase in value creation from environmental sustainability reporting in the form of an increase in the sustainable growth rate.

### **The Effect of Social Dimension of Sustainability Reporting on Sustainable Growth Rate with COVID-19 Pandemic as Moderating Variable**

The result of this study is against the proposed hypothesis in which it shows that COVID-19 pandemic moderates the impact of the social dimension of sustainability reporting on sustainable growth rate negatively. In other words, the result shows that COVID-19 pandemic is able to weaken the relationship between the social dimension of sustainability reporting and sustainable growth rate.

The researchers believe that this result can be explained by several previous studies that were put forward by the researchers in explaining the results of the third hypothesis. The first argument is that the companies that are part of the research data may still be at a stage before the transition point referred to by Chen & Lee (2017) at the time of the occurrence of COVID-19. This means that stakeholders have not considered that the social sustainability movement reported by the company is something special even during the COVID-19 pandemic. Adding to the previous argument, the researchers argue that the occurrence of COVID-19 raises many issues that must be addressed by companies and stakeholders so that the movement and reporting of the social dimension of sustainability may potentially become less prominent than before the occurrence of COVID-19. This then weakens the relationship between sustainability reporting on the social dimension and value creation in the form of a sustainable growth rate that the company wants to achieve. According to the researchers, the results of this hypothesis also can then be explained by the findings of Ikram et al. (2020) that the social dimension of sustainability reporting is indeed known to be more abstract than other dimensions so that the relationship between reporting on the sustainability of the social dimension and value creation in the

form of a sustainable growth rate may become even more opaque during the occurrence of COVID-19 which can be categorized as an anomaly situation.

## **CONCLUSION, LIMITATION AND IMPLICATION**

### **Conclusions**

The conclusions that can be drawn from this research are: (1) The economic dimension of sustainability reports has a significant positive effect on the sustainable growth rate; (2) The environmental dimension of sustainability reports has a significant positive effect on the sustainable growth rate; and (3) The social dimension of sustainability reports has a significant negative effect on the sustainable growth rate. After conducting a series of research processes, it has been proven that sustainability reporting can provide value creation or reduce company value in the form of changes in the sustainable growth rate. Thus, companies must be able to integrate sustainability reporting with financial planning that includes the calculation of sustainable growth rates in order to maximize value creation for the company.

Then, because the research data covers 2020 where the COVID-19 pandemic has had an unprecedented impact, this study also examines whether the COVID-19 pandemic affects the relationship between the influence of sustainability reporting and the sustainable growth rate (SGR) with the following test results: (4) The COVID-19 pandemic is able to weaken the relationship between the economic dimension of sustainability reporting and sustainable growth rate; (5) The COVID-19 pandemic is able to strengthen the relationship between the environmental dimension of sustainability reporting and sustainable growth rate; and (6) The COVID-19 pandemic is able to weaken the relationship between the social dimension of sustainability reporting and sustainable growth rate.

### **Limitations**

In addition to the results and studies that have been carried out by researchers, this study also has the following limitations: (1) The research data includes 2020 data in which COVID-19 has occurred. This can cause the data under the research to be affected. (2) The research model does not include other variables that have also been proven by previous research to affect the sustainable growth rate, namely corporate governance, intellectual capital, and so on.

### **Suggestions for further research**

Continuing from the conclusions and limitations of the research that have been identified, the researchers would like to give suggestions for further research: (1) future researchers can add other variables to the research model, for example as control variables, which can be in the form of corporate governance, intellectual capital, or other variables that have been proven to affect the sustainable growth rate. (2) future researchers can examine the dependent variable of sustainable growth rate differently by including the actual growth rate which can be compared with the sustainable growth rate to provide a broader analysis.

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