

The Relationship between Corporate Sustainability Disclosure and Financial Performance: Case Study of Listed Company in Thailand

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Abstract

Corporate sustainability reports have become part of the strategic planning of organizations, Since it is not mandatory in many countries, corporate sustainability report is usually voluntary. The most commonly used sustainability reporting framework follows the guidelines of the Global Reporting Initiative. The main purpose of this study is to investigate the relationship between corporate sustainability disclosures and financial performance with reference to listed companies in Thailand. GRI index data was collected from corporate sustainability reports and

financial data was obtained from annual company reports from 2010 - 2014. Data was statistically analyzed by multiple regression. GRI indicators were employed to assess progress within six criteria: economic, environmental, labor, society, human right, and product responsibility. Financial performance measures include: ROA, ROE and NET. Analysis results illustrated that corporate sustainability disclosure has a significant relationship with ROA and NET. The analysis of the results of study examine the relationship of corporate suitability disclosure and financial performance. The GRI emphasizes a company's consider those environment and social features that are significant to its key stakeholders and have the most significant impacts on its business. Organization which use the GRI guideline are strongly encouraged to submit their stability discourser reports to external assurance and corporate sustainability disclosure is an important driver for organizations towards better financial performance and organizational sustainability.

Keywords: Corporate Sustainability Disclosure, Global Reporting Initiative,

Financial Performance

บทคัดย่อ

รายงานการพัฒนาย่างยั่งยืนขององค์กรได้กลายเป็นส่วนหนึ่งของแผนยุทธศาสตร์ขององค์กรและการรายงานความยั่งยืนจะเกี่ยวข้องกับความสนใจเนื่องจากไม่ได้บังคับในหลายประเทศ กรอบการรายงานการพัฒนาย่างยั่งยืนที่ได้รับความนิยมคือ แนวทางขององค์กรการริเริ่มการรายงานทั่วโลก การวิจัยครั้งนี้มีวัตถุประสงค์เพื่อ ศึกษาความสัมพันธ์ระหว่างการเปิดเผยข้อมูลเกี่ยวกับความยั่งยืนของบริษัทกับผลการดำเนินงานทางการเงินของบริษัทจดทะเบียนในประเทศไทย แนวทางการเปิดเผยข้อมูลอย่างยั่งยืนขององค์กรถูกรวบรวมจากรายงานความยั่งยืนขององค์กรและข้อมูลทางการเงินที่ได้จากรายงานในช่วงปี 2553 - 2557 และข้อมูลทำการวิเคราะห์ทางสถิติโดยใช้เครื่องมือวิเคราะห์การถดถอยพหุคูณ โดยศึกษาจากดัชนีตามตัวชี้วัดทั้ง 6 ด้านคือ ด้านเศรษฐกิจ ด้านสิ่งแวดล้อม ด้านแรงงาน ด้านสังคม ด้านสิทธิมนุษยชน และด้านความรับผิดชอบต่อผลิตภัณฑ์ กับผลการดำเนินงานทางการเงิน ได้แก่ อัตราผลตอบแทนจากสินทรัพย์ อัตราผลตอบแทนผู้ถือหุ้น และยอดขายสุทธิ ผลการวิจัยแสดงให้เห็นว่าการเปิดเผยข้อมูลอย่างยั่งยืนของบริษัทมีความสัมพันธ์กับผลตอบแทนจากสินทรัพย์และยอดขายสุทธิ การวิเคราะห์ผลจากการศึกษาเป็นการหาความสัมพันธ์ระหว่างการเปิดเผยความยั่งยืนขององค์กรกับข้อมูลทางการเงิน โดยมาตรฐาน GRI ให้ความสำคัญกับการพิจารณาขององค์กรในเรื่องของสิ่งแวดล้อมและสังคมซึ่งเป็นสิ่งสำคัญอย่างยิ่งที่มีผลต่อผู้ที่มีส่วนได้เสียกับองค์กรทั้งหมดและเป็นส่วนสำคัญที่มีผลต่อการดำเนินธุรกิจด้วยเช่นกัน องค์กรที่ใช้มาตรฐาน GRI ในการใช้เป็นตัววัดการเปิดเผยข้อมูลจะส่งผลให้มีค่าน่าความเชื่อถือมากยิ่งขึ้นและถือเป็นกลไกการขับเคลื่อนที่สำคัญในการสร้างผลการดำเนินงานทางการเงินและองค์กรที่ยั่งยืน

คำสำคัญ : การเปิดเผยข้อมูลอย่างยั่งยืนขององค์กร การริเริ่มการรายงานทั่วโลก ประสิทธิภาพทางการเงิน

Introduction

This paper is a report into corporate sustainability disclosure and its relationship to the financial performance of listed companies in Thailand. The study is based on applying Global Reporting Initiative (GRI) sustainability reporting guidelines to listed companies in Thailand. The number of listed companies in Thailand is growing and developing sustainability is a key aspect of their performance. (K.M.Y. Law and A Gunasekaran, 2012). Before the year 2000, there was no corporate sustainability reporting rules which companies could use to formulate sustainability reports in Thailand. As companies decided what to disclose based on their discernment of stakeholders' information needs, Morhardt et al. (2002) found that GRI guidelines were superior compared to other guidelines. In many countries some class of sustainability reporting is required from companies, either by trading exchanges or by government regulatory bodies. Also, every year new laws and guidelines governing financial accountability are issued within countries through the world. The GRI (2006) presents a model for corporate sustainability reports using its guidelines which can be used for several purposes. The GRI model includes a comparison of the sustainability performance of companies. The GRI performance indicators are: economic, environmental, labor, society, human rights and product responsibility. The GRI developed comprehensive sustainability reporting framework is extensively used around the world. This framework allows organizations to assess their performance within six key sustainability indicators (GRI, 2006).

The research problem of this study is to provision the GRI in achieving their objectives of continuous development and application of the sustainability reporting guidelines. Therefore, the GRI is measured to have achieved its objectives when companies in Thailand use their sustainability reporting guidelines, and when all requirements set out in the guidelines are fully complied with, including the complete disclosure of prescribed economic, environmental, labor, human right, society and product responsibility performance indicators. The benefits of sustainability disclosure reporting go beyond those relating to financial risk, offering the opportunity to perform along the dimensions and establishing a license to function. Sustainability disclosures can assist as a differentiator in competitive industries to enhance investor confidence and build trust and loyalty among operatives (EY; GreenBiz Group, 2012).

Financial experts often consider a company's sustainability disclosures in valuation of management quality and efficiency.

Sustainability disclosure reporting requires companies to gather information on processes and influences which may not have been previously measured. In addition to creating greater transparency about companies' performance, sustainability disclosure can provide firms with information needed to decrease the use of natural resources, increase efficiency and recover operational performance. Sustainability disclosure reporting can also prepare companies to avoid environmental and social risks that might have substantial financial impacts on their business. Sustainability disclosures can deliver better business, social, and environmental and financial value, creating a virtuous circle (Tullis, P., 2015). This study provides initial confirmation of sustainability reporting by publicly listed companies in Thailand. Specifically, it studies the scope, nature and possible drivers of reporting for listed companies. The nature and scope of sustainability reporting, and specifically considering the reporting of indicators for sustainability, are described and measured using GRI guidelines. Using GRI scores derived from this guideline, the study also tests the relationships between corporate sustainability disclosure and financial performance. The next sections present background information on sustainability reporting and a review of legitimacy theory and stakeholder theory. This is followed by the development of the methodology and hypothesis, including the results and discussion. Finally, conclusions of the study are presented including the study's limitation and recommendations for further research.

Objective

From the background research and theoretical perspective, this study on corporate sustainability disclosure in Thailand has two purposes, as follows:

1. To analyze the sustainability disclosure in Thailand.
2. To investigate the relationship between sustainability disclosure level and financial performance.

Conceptual Framework

Independent Variables

Sustainability disclosure

- Economic performance
- Environmental performance
- Labor performance
- Human Right performance
- Society performance
- Product Responsibility performance

Control Variables

- LEV (Leverage)
- Countries
- Size

Dependent variables

Firm performance

- ROA (Return on assets)
- ROE (Return on equity)
- NET (Net sales)

Literature Review

Concepts of Sustainability

The discussion at several the forums regarding economic expansion and the impact on the environment and the forums concerning economic development humanity begin the concepts of sustainability in the 1970s. There was extensive receipt that economic development should be sustainable having slight unwanted impact on the humans particularly, upcoming generations. At current, many deliberate this to be a theoretic ideal. In reality, sustainable development cannot be attained within a short time frame. Supplementary probable, it is a long-term area (Ernst & Young., 2002). The amplification of stated guidelines important the reporting entity limitations are a multifaceted challenge and have become a complete obligation. To describe these limitations, the GRI is emerging a concept of operational dimension as well as the sequential dimension concept, concerning the reporting organization stakeholders, in order to explanation for direct and indirect economic, environmental and social impacts of the reporting object. The limiting information only to some portion of the act or the possibility of the organizational action suggests hiding the actual unsustainability of the organization (J.M. Moneva et al., 2006).

Legitimacy Theory

Legitimacy theory suggests that the legitimacy of a business object to activate in society, depends on an implicit social contract between the business entity and society. According to Deegan & Blomquist (2006) legitimacy theory forecasts that companies adopt environmental and social responsibility reporting to legitimize their procedures. When society's norms and prospects of the business entities have changed or the business entities observed themselves in the breach of existing norms and expectations of society (ibid); Legitimacy theory is extensively used. This is in order to clarify social and environmental reporting where legitimacy theory relies on the view that the legitimacy of a business entity to operate in society depends on an implicit social contract between the business entity and society (Branco, MC & Rodrigues, L, 2008). According to Gray, Kouhy and Lavers (1995), legitimacy theory is a benefit over other theories in that it provides disclosing strategies. That are organizations may accept to legitimate their existence that must be empirically verified.

Stakeholder Theory

Stakeholders substitute either formally or informally, individually, collectively are a key component in the firm's external environment that can positively or negatively affect the organization (Hummels, H. and D. Timmer: 2004). The key challenge for businesses is the task of recognizing to whom they are accountable and how far that accountability extends. Sustaining the difficulty of managing the relationship between a business and stakeholders are subjects such as: different and often contradictory expectations between stakeholders, contextual complexities (Quick, Reiner, 2008). Stakeholder theory is an important element in the open system in organizations. It is relate with society different groups with their own, prospects and demands humanize every communication. Sustainability disclosure reports are should be tailored around these needs in a strategic method (Dando, N. and T. Swift: 2003). The impact of company's sustainability disclosure reports would depend on its position with the expectations of its various stakeholders. A balancing of company of these priorities must be informed by its stakeholders of importance. Stakeholder theory focuses the relationships between the organization and others in internal and external environment. For all those reasons above, this paper assumes those theories as the theoretical perception for the purpose of explaining variations in dependent variable. The dependent variables are return on assets, return on equity and net sales. The research purpose of this study is to examine the relationship

between the sustainability disclosures: economic, environmental, labor, human right, society and product responsibility performance information and financial performance. To examine this relationship, the study conducts a correlation study where the sustainability disclosure consisting of six indicators. The increasing learning of corporate sustainability studies in Thailand, corporate sustainability studies lead on listed company in Thailand are following the trend with annual report.

The Relationship between corporate sustainability disclosure and financial performance below in table 1 show that examined the impact of the relationship sustainability performance with financial performance were recognized. A table 1 show these studied, the table includes only works that use some measure of financial performance variables. This study, we use return on assets, return on equity and net sales for the financial performance variables.

Summary Literature Review

Table 1 The relationship sustainability performance and financial performance

Source	Objectives	Findings
Isabel C. Lourenço, Manuel CasteloBranco (2013)	Determinants of corporate sustainability performance in emerging markets: the Brazilian case	Negative relationship
Dan Dhaliwal, Oliver Zhen Li, Albert Tsang, Yong George Yang (2014)	Corporate social responsibility disclosure and the cost of equity capital: The roles of stakeholder orientation and financial transparency	Negative relationship
Marc J. Epstein and Marie-José Roy (2001)	Sustainability in Action: Identifying and Measuring the Key Performance Drivers	Positive relationship
Renard Y.J. Siew, Maria C.A. Balatbat and David G. Carmichael (2013)	The relationship between sustainability practices and financial performance of construction companies	Positive relationship
Zhihong Wang and Joseph Sarkis (2013)	Investigating the relationship of sustainable supply chain management with corporate financial performance	Positive relationship
Jones (2005)	GRI Sustainability Reporting Index Score	Mixed relationship

Methodology

The method of this study was to select target group consisting of sustainability reports from listed companies in stock exchange of Thailand during 2010 - 2014 financial years. Secondary data used in this study were provided by corporate sustainability reports in their annual reports, sustainability reports of companies and financial data obtained from the website of <http://database.globalreporting.org/> and sampling only those available in sustainability disclosure database by region and countries in Thailand, companies' total of 14 companies for purpose of analysis. This study had chosen the GRI guidelines to be used to measure corporate sustainability disclosure level since these guidelines are widely accepted ones (Odemilina et al., 2010; sustainAbility, 2009; Isaksson and Steimle, 2009), also GRI guidelines are the important worldwide recognized standard in reporting corporate sustainability.

This research paper tests models using multiple regression analysis as statistical tool in SPSS statistics software, so that examine and analyze the relationship between corporate sustainability and financial performance. GRI guidelines have three dimensions/categories: economic, environmental and social. The six indicators under GRI divers, which are economic, environmental, labor, human rights, society and product responsibility and six indicators, were used in measure the corporate sustainability disclosure level showed by each company. To measure corporations' financial performance, return on assets (ROA), return on equity (ROE) and net sales (NET) were used as variables. The control variables are leverage (LEV) and Size (Log Total Assets).

Hypotheses Development

This research aims to investigate the sustainability disclosure information using GRI G3 and G4 guidelines.

Hypothesis 1: There is a positive relationship between the disclosure level of sustainability performance information and return on assets.

Hypothesis 2: There is a positive relationship between the disclosure level of sustainability performance information and return on equity.

Hypothesis 3: There is a positive relationship between the disclosure level of sustainability performance information and net sales.

Research Result

The result of relationship between GRI disclosure and financial performance in the listed companies of Thailand using content analysis discussed in this paper, from Table 2, we can see that the association between GRI disclosure and financial performance, the impacts of financial performance on GRI disclosure. This part is organized as below.

Table 2 Multiple Regression of sustainability performance information disclosure level and ROA for the periods 2010-2014 (n = 70)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	23.641	6.372		3.710	0.000		
LEV	-9.661	3.324	-0.337	-2.906	0.005*	.828	1.207
LogTA	-1.265	0.686	-0.271	-1.844	0.070	.519	1.928
EC	-0.117	0.319	-0.077	-0.366	0.716	.254	3.933
EN	0.000	0.085	-0.001	-0.005	0.996	.239	4.192
LA	0.497	0.255	0.411	1.952	0.056	.251	3.981
HR	0.198	0.336	0.137	0.589	0.558	.207	4.838
SO	0.204	0.355	0.127	0.576	0.567	.228	4.387
PR	-0.677	0.266	-0.510	-2.545	0.013*	.278	3.594

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.	Durbin-Watson
1	.565 ^b	.319	.230	3.64820	3.573	0.002*	.778

* Statistical Significant at the 0.05 level.

Multiple Regression Model

Results and Discussion of ROA: $ROA_n = \beta_0 + \beta_1 EC_n + \beta_2 EN_n + \beta_3 LA_n + \beta_4 HR_n + \beta_5 SO_n + \beta_6 PR_n + \beta_7 Size + \beta_8 LEV + \epsilon$

The results in Table 2 show that there is significant relationship between the level of corporate sustainability disclosure and return on assets. The relationship between the levels of corporate sustainability disclosure with return on assets when indicate the data six indicators that 23 percent in the level of the relationship is the most important factor of corporate sustainability disclosure and follow by leverage and product responsibility. The relationship in

corporate sustainability disclosure with return on assets when indicate in negative relationship that related with leverage and product responsibility that mean when the indicators more disclose, the return on assets will reduces that the companies also reduces the return on assets.

$$\text{Results and Discussion of ROE: } ROE_n = \beta_0 + \beta_1 EC_n + \beta_2 EN_n + \beta_3 LA_n + \beta_4 HR_n + \beta_5 SO_n + \beta_6 PR_n + \beta_7 Size + \beta_8 LEV + \varepsilon$$

The results in Table 3 show that there is significant relationship between the level of corporate sustainability disclosure and return on equity. The relationship between the levels of corporate sustainability disclosure with return on equity when indicate the data six indicators that 8.50 percent. The results from this study show that there is no relationship between the level of corporate sustainability disclosure and return on equity.

Table 3 Multiple Regression of sustainability performance information disclosure level and ROE for the periods 2010-2014 (n = 70)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	18.462	10.402		1.775	0.081		
LEV	10.465	5.426	0.244	1.929	0.058	0.828	1.207
LogTA	-0.826	1.120	-0.118	-0.738	0.463	0.519	1.928
EC	-0.569	0.521	-0.249	-1.091	0.280	0.254	3.933
EN	-0.156	0.138	-0.266	-1.130	0.263	0.239	4.192
LA	0.441	0.416	0.244	1.060	0.293	0.251	3.981
HR	0.202	0.548	0.093	0.368	0.714	0.207	4.838
SO	0.054	0.579	0.022	0.093	0.926	0.228	4.387
PR	-0.190	0.434	-0.096	-0.438	0.663	0.278	3.594

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig	Durbin-Watson
1	.438	.192	.085	5.95563	1.806	.093	0.965

* Statistical Significant at the 0.05 level.

The results in Table 4 show that there is significant relationship between the level of corporate sustainability disclosure and net sales. The relationship between the levels of corporate sustainability disclosure with return on assets when indicate the data six indicators that 56.80 percent in the level of the relationship is the most important factor of corporate sustainability disclosure and follow by size and environmental. The relationship in corporate sustainability disclosure with net sales when indicate in positive relationship that related with size and environmental that mean when the indicators more disclose, the net sales will increase that the companies also increase the net sales.

Table 4 Multiple Regression of sustainability performance information disclosure level and NET for the periods 2010-2014 (n = 70)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.956	0.903		4.380	0.000		
LEV	-0.007	0.471	-0.001	-0.014	0.989	0.828	1.207
LogTA	0.553	0.097	0.625	5.686	0.000*	0.519	1.928
EC	0.028	0.045	0.099	0.628	0.532	0.254	3.933
EN	0.041	0.012	0.550	3.395	0.001*	0.239	4.192
LA	-0.033	0.036	-0.142	-0.902	0.371	0.251	3.981
HR	0.003	0.048	0.010	0.058	0.954	0.207	4.838
SO	-0.028	0.050	-0.093	-0.561	0.577	0.228	4.387
PR	-0.068	0.038	-0.271	-1.806	0.076	0.278	3.594

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig	Durbin-Watson
1	.786	.618	.568	.51720	12.317	.000*	0.522

* Statistical Significant at the 0.05 level.

Results and Discussion of NET: $NET_n = \beta_0 + \beta_1 EC_n + \beta_2 EN_n + \beta_3 LA_n + \beta_4 HR_n + \beta_5 SO_n + \beta_6 PR_n + \beta_7 Size + \beta_8 LEV + \epsilon$

The analysis of return on assets and net sales were found to be significantly with GRI indicator. The result shows that the sustainability disclosures related with return on assets and

net sales such as leverage, size, environmental and product responsibility. The result is in congruence with our prospect of the result of Guindry and Patten (2010). The study's results confirm the finding of many current researches which argue that corporate sustainability has important association with business performance (Hillman and Keim, 2001; Jones et. al., 2007; Van d Velde et. al., 2005) and also each other leading to significant influence on financial performance that may effects of dimensions of sustainability.

Conclusions

Summary, this is a generally amplify in the number of corporate sustainability disclosures of the companies in the Thailand. There is corporate sustainability disclosure of the companies in the recent years that significant difference in the mean of corporate sustainability disclosure. This could be the indicators for the effect of the framework provided by the improved guidance and the increasing awareness of the companies in this regard (Asian Sustainability Rating, 2010). The sustainable business improvement system has management on important. The analysis of the results of study examining the relationship of corporate sustainability to financial performance may suggest that companies might benefit from increase communication of their good performances. The study in the example specifically covers transparency and reporting indicated positive reactions to sustainability reporting. The paper may suggests that investors progressively prefer to invest in transparent enterprises, due to higher stakeholder trust, more precise analyst forecasting and lower information irregularity. The information and result constructing may be able to help the firms to develop new means of data collection and to think in new ways about long held practices.

The research result that company's financial performance may support company's decision to improve its performance in managing sustainability performance, along environmental, labor and product responsibility dimensions does significantly influence. Companies would recognize that improving sustainability performance is as significant as improving the financial performance. Firm needs to be concerned towards the needs of the future generations in running the business. This should reflect the stakeholder's confidence to invest in the business decisions of investors as well as customers to be trust that the business to make a sustainable contribution to society or the environment in which they live alongside the growth of the business. The preparation of sustainability reports in parallel could have the significant in decision making of the business for stakeholders. On the other hand, the benefit

of using the GRI framework to standardization of reports is guidance on material issues. The GRI emphasizes a company's consider those environmental and social features that are significant to its key stakeholders and have the most significant impacts on its business or result. Companies which use the GRI guidelines are strongly encouraged to submit their sustainability disclosure reports to external assurance (Simnett, R, Vanstraelen, A and W. F. Chua, 2012).

Recommendation

This research makes a contribution to satisfying the gap in research about sustainability disclosure and financial performance in Thailand. This study offers a contribution to understanding of some firm characteristics persuading sustainability disclosures. This could benefit to improve business governance and social disclosure agendas related to economic, environmental, labor, human right, society and products responsibility concepts. This is significant to progress future research in understanding GRI framework and the suggestion between sustainability disclosure and financial performance.

Limitations

This research examined firm annual reports based on five-year period from the Stock Exchange of Thailand in 2010 to 2014, only focused on company annual reports, which show an unfinished picture of sustainability practice of firms in Thailand. This research is limited to the data from annual reports of Thailand. This research is limited to the dimension of sustainability activities; the content analysis presents some subjectivity in the coding process.

Future Research

Future research might apply a longitudinal technique by using more years' information. The Thailand companies are focused, but future research might be a contrast all countries study in ASEAN. Future studies might compare the study of developed countries and developing countries in efforts to understand the nature and extent of sustainability disclosure and its relationship to financial performance.

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