



The Indonesia Sustainability Reporting Awards (ISRA) Announcement Influence On Abnormal Return and Stock Trade Volume (Empirical Study on ISRA Award-Winning Companies in 2009-2016 Period)

Dewi Anggraini

Accounting Study Program,
Faculty of Economics and Business,
University of Mercu Buana

ABSTRACT

This study aims to analyze the influence of the Indonesia Sustainability Reporting Awards (ISRA) announcement from 2009 to 2016 on stock price, which is seen from the change of abnormal return and stock trading volume prior and after the date of the announcement. The samples for this research are publicly-listed companies that participated in ISRA from 2009 until 2016, both award winners and nonwinners. The data used are secondary data consisting of abnormal return and stock trading volume on a daily basis. The research test utilized the paired t-test method. The results of this research indicate that the ISRA announcement does not affect the abnormal return and stock trading volume, as seen from the absence of differences in abnormal return and stock trading volume before and after the date of the announcement.

Keywords: Indonesia Sustainability Reporting Awards, Abnormal Return, Stock Trading Volume.

PREFACE

Background

For investors and potential investors, a company financial statement is one of the vital information for assessing the performance and serves as a reference in making investment decisions. With information obtained from financial statements, investors and potential investors will know thoroughly about the company's financial condition.

In October 2017, NCSR (National Center for Sustainability Reporting) held the "Indonesia Sustainability Reporting Award (ISRA). The purpose of this event is to assess the suitability of sustainability reports that have been prepared by participating companies in the Global Reporting Initiative Index (GRI) and G4. Global Reporting Initiative (GRI) is a non-profit organization that promotes economic sustainability. GRI produces the world's most commonly used standards for sustainability reporting such as Environmental Social Governance (ESG) Reporting, Triple-Bottom-Line (TBL) Reporting, and Corporate Social Responsibility (CSR) Reporting. GRI strives to continue developing the "framework for sustainability reporting," and the G4 Guidelines were officially released on May 22, 2013 (www.globalreporting.com).

At present, the sustainability report is not yet mandatory in Indonesia, although it has been supported by some rules such as the Law of the Republic of Indonesia No.23 of 1997 on Environmental Management article 5, and Article 66 Paragraph 2 of Law no. 40 Year 2007 on the Limited Liability Company. Unlike the neighboring country, Singapore, which has required the preparation of the Sustainability Report for all companies listed on the SGX starting financial statement ending on December 31, 2017. Thus Singapore has followed the lead of the

EU, US, Japan and Hongkong which have obliged publicly-listed companies to prepare and report on sustainability reports. (www.ncsr-id.org)

The Sustainability Report reports the economic, environmental and social impacts of corporate activities transparently. The openness about these matters will convince stakeholders that the company has been well managed and that the company has paid attention to the interests of the investors, hence will build investor confidence (Guan and John, 2017)

ISRA award-winning companies for the last 9 (nine) years were as follows:

Table 4.15
List of ISRA Award-Winning Companies from 2009 to 2017

Year	Number of Companies
2009	10
2010	8
2011	11
2012	9
2013	11
2014	35
2015	37
2016	55
2017	40

Source: Processed from various sources

The assessment indicators cover the following criteria: completeness (40%), credibility (35%) and communications (25%) of company reports. (Himawan, 2007). Along with global issues such as global warming, ISRA is expected to motivate for companies to pay more attention to environmental and social aspects in addition to economic aspects by implementing sustainability report so that that good corporate governance can be formed. In addition, the award-winning ISRA companies can also convince the public that these companies not only take into account the financial factors but also optimize non-financial factors as the corporate social responsibility to the public, enhance the company's reputation, communicate what it already is and the company does not add value to the social and environment. The existence of ISRA is also expected to facilitate investors in making decisions because it can see the long-term plan of the company. Investors have already changed their investment outlook, they are not only looking for big profits but also looking for companies that are environmentally friendly and carry on social responsibility. Such a concept is known as Socially Responsible Investment (SRI).

Akis (2012) argues that investors are experiencing a change in investment outlook by starting to consider the company's concern for the environment. Based on that opinion, ISRA provides benefits for investors and potential investors in realizing their views. Investors and potential investors can use ISRA as their additional reference in addition to financial statements in investment decision-making or serve as a major reference to replace the role of financial statements. The number of people voicing companies to pay more attention to the environment arises because the environmental problems are getting more apprehensive. It can make the sustainability report a key reference for investors and potential investors. ISRA is expected to improve the reputation of award-winning companies, as these companies are proven to have performed financial reporting that takes the social, ethical, and environmental aspects (SEE) properly.

The disclosure of these aspects into the way companies demonstrate a form of accountability to investors. Companies that win the Indonesia Sustainability Reporting Award (ISRA) will enhance their image in public for promoting harmony between economic, social and environmental aspects. If the company's image increases, investors will decide to invest in the company so and will eventually increase the company's stock prices and trading volume. Stock price changes can be measured with the abnormal return.

Abnormal return is the difference between real return compared to the return expectation (Jogiyanto, 2013). The increase in return is a positive reaction from the market, as indicated by the stock price change. Announcements containing information will provide a consistent abnormal return to the market (Mulyadi, 2012). If the announcement contains information, then the market will show a change in price, the market reaction indicates a price change can be measured by the abnormal stock return (Budiman, 20 09). Stock trading volume is an indicator used to show the investors' interest in a particular stock. The higher the trades volume, the more often the stocks are transacted (Budiman, 20 09) and stock trading volumes are used as a measure to see if investors value the announcement as either positive or negative, in the sense that the information makes decisions trade above regular trade (Budiman, 2009).

Various studies have been conducted to identify the impact of ISRA announcements on market reaction and financial performance. The results of the research by Linuwih and Nugrahanti (2014) on the winners of ISRA 2009-2011 show no significant differences in abnormal returns before and after the ISRA announcement, while trading volume activity experienced substantial differences. While the results from Randina (2016) research on ISRA award-winning companies from 2012 to 2014 stated that the ISRA announcement didn't cause differences in abnormal return, it caused a difference in stock trading volume. Given such inconsistent results, This research reviews the influence of the ISRA announcement on market reaction during the 2009-2016 period.

Problem Identification

Based on the background that has been described, then the problems in this study are formulated as follow:

1. Is there any difference in abnormal return before and after receiving the Indonesia Sustainability Reporting Award (ISRA)?
2. Is there any difference in stock trading volume before and after receiving the Indonesia Sustainability Reporting Award (ISRA)?

Research Objectives and Contributions

Research Objectives

The objectives to be achieved in this research are:

- To obtain empirical evidence that there is an abnormal return difference before and after receiving the Indonesia Sustainability Reporting Award (ISRA)
- To obtain empirical evidence that there is a difference in stock trading volume before and after winning the Indonesia Sustainability Reporting Award (ISRA)

Research Contribution

The results of this research are expected to be used as a reference for policy by company management on SR both in determining the SR disclosure and GCG implementation policies. It is also likely to describe annual financial statements to be used as reference for investment decision-making.

LITERATURE REVIEW

Signaling Theory

The signal is an activity performed by the high type manager which is not rational when followed by low type manager. This action makes a different quality from one company to another (Scott, 2015). According to Scott (2015) the signaling theory was first put forward by Spence (1973) and later developed by various experts, among others, Leland and Pyle (1977), Titman and Trueman (1986), Datar, Feltham and Hughes (1991), Fan (2007). Various signals have been applied to the field of accounting.

Sustainability report disclosure aims to provide additional information about the company's activities as well as means to provide a signal to stakeholders about the company's concern for the social and the environment. The appropriate sustainability report disclosure and proper stakeholder expectations serve as signals given by the management to the public that the company has good prospects in the future and ensures the creation of sustainability development (Sakina, 2014). These signals are expected to be positively received to affect the company's financial performance as reflected in Return on Asset, Return on Equity, and net profit margin.

Stakeholder Theory

The concept of corporate social responsibility has come to prominence since the early 1970s, commonly known as stakeholder theory. The stakeholder theory is a collection of policies and practices related to stakeholders, values, legal compliance, public and environmental awards, and business world commitment to contribute to sustainable development. Stakeholder theory begins with the assumption that the value is, explicitly and undeniably, a part of business activities. (Freeman, et al., 2002 in Waryanti, 2009).

Stakeholder theory states that a company is not an entity that only operates for its own sake but must provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support given by stakeholders to the company (Ghozali and Chariri, 2007).

Corporate social responsibility should go beyond maximizing profits for the benefit of shareholders. The welfare that can be created by a company is not necessarily limited to the interests of shareholders, but also to the interests of stakeholders or all related parties.

Indonesia Sustainability Reporting Awards (ISRA)

Indonesia Sustainability Reporting Awards (ISRA) is an award given to companies that have made reporting on activities related to environmental and social aspects in addition to economic elements to maintain the company's sustainability itself. ISRA is an award to companies that have released sustainability reports, either published separately or integrated into the annual report, with assessment indicators covering Completeness (40%), Credibility (35%) and Communications (25%) of company reports.

The Sustainability Reporting itself is a report that contains economic performance, environment, and corporate social responsibility. The objectives of ISRA are as follows: 1) Provide recognition to organizations reporting and publishing information on environmental, social, and integrated sustainability information 2) support environmental, social and sustainability reporting 3) improve corporate accountability by emphasizing responsibilities to key stakeholders, and 4) increase corporate awareness on transparency and disclosure.

Sustainability Report

The development of a sustainability report is part of the sustainability development concept. Sustainability development means that current development can be fulfilled without necessarily reducing the needs of future generations to meet their needs (Heemskerk, 2002). Sustainability development needs to be implemented because the current economic activity tends to damage the global ecosystem and hamper the needs of the next generation (Randina, 2016).

Sustainability report is used as one of the company's information media to the stakeholders to support sustainable development. According to Elkington (1998), the disclosure of organizational performance in sustainability report focuses on three aspects called the Triple bottom line, which consists of economic, social, and environment. Elkington thinks that this is derived from a management science approach which is intended as a way to run corporate social responsibility (Kuhlman, 2010). Fajarini (2012) argues that economists are the most reluctant group in dealing with sustainability issues because they treat sustainability as a matter of economic resources rather than a public issue. The reason why economists are unwilling to recognize viability as a public issue is that the concept of sustainability is fundamentally incompatible with conventional economic theory (Rogers, 2008) in (Michelon, 2010).

Sustainability reports are also used by government agencies, for example from the environment ministry to assess the company's performance on the environment in any reporting. As in Indonesia, regulations in CSR disclosure can be found in the rules issued by Bapepam and Law No.40/2007 on Limited Liability Companies. The disclosure of sustainability reports in established rules is a stand-alone report, although there are still many CSR implementations disclosed along with the company's annual report (Kusumadilaga, 2010).

Abnormal Return

Abnormal return is the return earned by investors which are not by expectations. Abnormal return is the difference between the expected return and the earned return. The difference of return will be positive if the return earned is greater than the expected return or the calculated return. Meanwhile, the return will be negative if the return earned is lower than the expected return or the calculated return. Abnormal return can occur due to certain events, such as national holidays, early months, early years, uncertain political conditions, extraordinary events, stock splits, stock offerings, and so on. The event study analyzes the abnormal return of securities that may occur around the announcement of an event. Abnormal return or excess return is the excess of the actual return occurs to the normal return. Abnormal return is the difference between the actual return that occurs with the expected return (Jogiyanto, 2013). The following are the formula for calculating abnormal return:

$$CAR = \sum AR_{it}$$

AR_{it}: Rit - R_{mt}

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

Remarks:

AR_{it} = Abnormal return for company i on day t

R_{it} = Daily return of company on day t

R_{mt} = Return of market index on day t

Pit = Company i stock price at time t
Pit-1 = Company i stock price at time t-1
IHSGt = Jakarta Composite Index at time t
IHSGt-1 = Jakarta Composite Index at time t-1

Stock Trading Volume

Trading Volume Activity (TVA) can be used as an indicator to see investors' reaction to stock trading volume and can be used to see if ISRA announcement is a positive or negative signal to make a rational decision. Trading Volume Activity is a comparison between the number of shares traded with the number of outstanding shares in a certain period. Trading Volume Activity can be formulated as follows:

$$TVA = \frac{\sum \text{Saham perusahaan i yang diperdagangkan pada waktu}}{\sum \text{Saham perusahaan i yang beredar pada waktu t}}$$

After TVA of each share is identified, the average TVA during the observation period is calculated using the following formula:

$$XTVA_t = \frac{\sum XTVA_i}{n}$$

Remarks:

XTVA_t = TVA average at time t

ΣTVA_i = Total TVA at time t

n₂ = Number of samples

Previous Research

Sakina (2014), in the result of the research entitled "The Analysis of Price Differences and Stock Volume Prior and After The Indonesia Sustainability Reporting Award (ISRA) 2005 Announcement" proves that there is no difference between Abnormal Return (AR) and Trading Volume Activity (TVA) before or after the announcement. In addition, Sakina (2014) also proves in his research that investors are still using earnings information as an investment decision-making tool and do not pay much attention to information from social responsibility report.

Arifin (2003) examines the influence of earnings announcements on companies that apply corporate governance to price reactions and stock trading volumes, using corporate governance as a dummy variable. The results of his research found that earnings announcements made by companies with good corporate governance does not significantly increase the relevant value of the earnings announcement but substantially decreases the divergence of investors' expectations, as evidenced by significantly smaller trading volumes compared with less-than-average corporate governance.

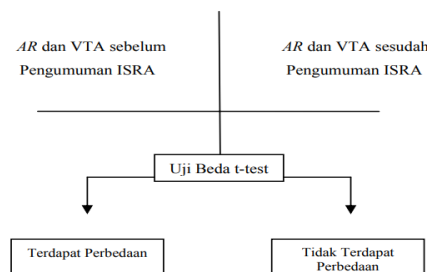
Budiman and Supatmi (2009), who examined the influence of Indonesia Sustainability Reporting Award (ISRA) announcement in 2008 on abnormal return and stock trading volume, conclude that there is a difference between the abnormal return of award-winning company shares around the ISRA announcement date.

Armin (2011) used research sample of public companies participating in ISRA 2009 and 2010, both award-winning and non-award winners. The data used are secondary data consisting of abnormal return daily data and stock trading volume. The research test utilized the paired t-

test method. The results of this research indicate that the ISRA announcement do affect the abnormal return and stock trading volume, as seen from the differences in abnormal return and stock trading volume before and after the date of announcement.

THEORETICAL FRAMEWORK

Based on the periodization chosen in this study and on the previous description, the theoretical framework of this research is described as follows:



Gambar
Rerangkemikiran

Research Hypothesis

H₁: There is an abnormal difference in stock returns before and after the announcement of the Indonesia Sustainability Reporting Award (ISRA).

H₂: There is a difference in stock trading volume before and after the announcement of the Indonesia Sustainability Reporting Award (ISRA).

RESEARCH METHODS

Research Variables and Operationalization

Abnormal Return

The abnormal return measurements for this research used the market adjusted models which assume that the best measurement is the market index return (Pincus, 1993 in Widiastuti, 2002), so it is not necessary to use the estimation period to form the estimation model, since the estimated securities return is the same as the market index return in the same period. In this case, the market return index uses the return of the Jakarta Composite Index (IHSG). Here is the formula for calculating abnormal return:

$$CAR = \sum AR_{it}$$

AR_{it}: Rit - R_{mt}

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

Remarks:

AR_{it} = Abnormal return for company i on day t

R_{it} = Daily return of company on day f

R_{mt} = Market index return on day t

P_{it} = Company i stock price at time t

P_{it-1} = Company i stock price at time t-1

IHSGt = Jakarta Composite Index at time t
IHSGt-1 = Jakarta Composite Index at time t-1

Stock Trading Volume

Trading Volume Activity is a comparison between the number of shares traded with the number of outstanding shares in a certain period. Trading Volume Activity can be formulated as follows:

$$TVA = \frac{\sum \text{Saham perusahaan } i \text{ yang diperdagangkan pada waktu}}{\sum \text{Saham perusahaan } i \text{ yang beredar pada waktu } t}$$

After TVA of each share is identified, the average TVA during the observation period is calculated using the following formula:

$$XTVA_t = \frac{\sum XTVA_i}{n}$$

Remark:

XTVA_t = TVA average at time t

ΣTVA_i = Total TVA at time t

n2 = Number of samples

Indonesia Sustainability Reporting Awards (ISRA)

The ISRA announcement from 2009-2016 was non-financial information announced by IAI-KAM to companies that publish sustainability report properly and regularly report it to shareholders.

Research Population and Samples

The population used are companies that publish a sustainability report in annual financial statements. The sample used in this research are listed companies on the Indonesia Stock Exchange which won the Indonesia Sustainability Reporting Awards (ISRA) from 2009-2016 and related companies which also participated in the ISRA 2009-2016 but were not awarded. The sampling technique used is purposive sampling. This technique selects specific target groups to obtain information. The sample is set for certain types of groups that can provide the needed information, because the group is the only party which has information or because the group is by the criteria set by the researcher.

Data Collection Method

The data collection method in this research was done in several ways as follows:

1. Documentation, i.e. data collection available on research objects.
2. Literature studies, i.e., from the literature related to problems in writing this research.

Data Analysis Method

The data analysis method this research used the event study technique. Jogiyanto (2013) states that an event study can be used to test the information content of an announcement and can also be used to test the efficiency of the semi-strong market. If the announcement contains information, it is expected that the market will react at the time the announcement is received by the market. The market reaction is indicated by the price change of the relevant securities. Methods for the event study generally follow the procedures as stated by Elton and Gruber in Munawarah (2009):

1. Collect samples of companies that have an event to investigate.
2. Determine precisely the day or date of the announcement and specify as day 0.

3. Determine the study period or event window, five days after and before the date of the announcement.
4. Find the return earned and trading volume of each sample (company) based in each unit period (day).
5. Calculate the abnormal return from the return earned by each company.
6. Calculate stock trading volume from the data of outstanding shares and the total number of shares traded. The market reaction is indicated by the price change of the relevant securities. This reaction can be measured using abnormal return and stock trading volume.

RESEARCH RESULT AND DISCUSSION

Description of Research Objects

The research objects used in this study are listed companies on the Indonesia Stock Exchange, which earned the Indonesian Sustainability Reporting Awards (ISRA) from 2009 to 2016. Also, as a comparison, companies that also participated in ISRA 2009-2016 but did not get the award are also included. The criteria set out in the sample selection, are shown in Table 1

Table 1
Sample Selection Results

No	Sample Determination Results	Criteria Amount
1.	The company which won ISRA during the 2009-2016 study period.	99
2.	The ISRA winning companies that are not listed on the IDX	(65)
Total sample companies		34

Source: processed data (2018)

Data Analysis Results

In this study, the data used are the average abnormal return and the average trading volume of activity on the shares of ISRA-winning companies from 2009 to 2016 before and after the date of the ISRA announcement. Also, companies that also participated in the ISRA 2009-2016 but were not awarded were also examined as a comparison, in order to make the ISRA influence comparable between award-winning and non-award winning companies.

Abnormal Return and Trading Volume Activity Data

The following is the abnormal return and trading volume activity data of the company that won the ISRA 2009-2016 and those which did not receive the award, along with an explanation on abnormal return position before and after the announcement of ISRA 2009-2016:

Table 2
Table and Graph of Average Abnormal Return and Trading Activity Before and After ISRA Announcement

Hari Ke - Saat Pengumuman ISRA	Rata-Rata Abnormal Return	Rata-Rata Trading Volume Activity
t-5	1.45%	8.71%
t-4	-9.14%	9.18%
t-3	-13.43%	8.44%
t-2	4.27%	9.53%
t-1	-14.17%	11.57%
t-0	-3.75%	50.32%
t+1	-13.76%	8.65%
t+2	17.89%	9.59%
t+3	-24.29%	8.12%
t+4	-2.57%	7.36%
t+5	-1.06%	8.57%

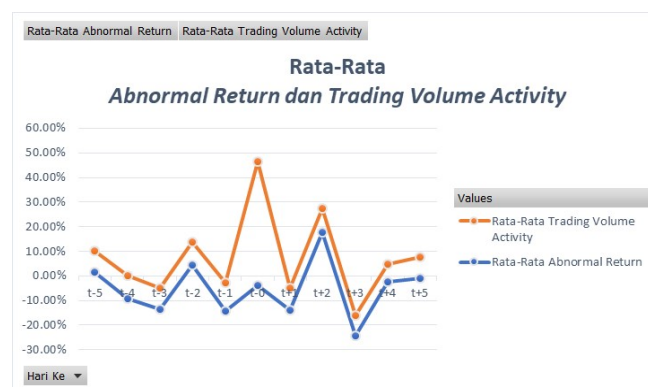


Table 3
Table and Graph of Abnormal Return and Trading Activity Before and After ISRA Announcement

Hari Ke - Saat Pengumuman ISRA	Abnormal Return	Trading Volume Activity
t+1	-68.80%	43.23%
t+2	89.43%	47.94%
t+3	-121.43%	40.60%
t+4	-12.84%	36.82%
t+5	-5.32%	42.87%
t-0	-18.73%	50.32%
t-1	-70.85%	57.83%
t-2	21.35%	47.64%
t-3	-67.14%	42.18%
t-4	-45.72%	45.88%
t-5	7.23%	43.55%

Source: data, processed with SPSS 23



Normality Test

Table 4
One-Sample Kolmogorov-Smirnov Test

		ARSebelum	TVASebelum	ARSesudah	TVASesudah
N		272	272	272	272
Normal	Mean	-0.0057	0.0087	-0.0044	0.0078
Parameters ^{a,b}	Std. Deviation	0.04623	0.01986	0.03935	0.01537
Most Extreme	Absolute	0.077	0.330	0.043	0.306
Differences	Positive	0.077	0.287	0.036	0.274
	Negative	-0.060	-0.330	-0.043	-0.306
Test Statistic		0.077	0.330	0.043	0.306
Asymp. Sig. (2-tailed)		,000 ^c	,000 ^c	,200 ^{c,d}	,000 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

The normality test aims to determine whether or not the data are normally distributed. The above output resulted in the value of Asymp. Sig. (2tailed) of 0,200, then under the terms of $0,200 > 0,05$ the residual value is normal. Then the data on the model is normally distributed.

Hypothesis Testing

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
H1	ARSebelum	-0.0057	272	0.04623	0.00280
	ARSesudah	-0.0044	272	0.03935	0.00239
H2	TVASebelum	0.0087	272	0.01986	0.00120
	TVASesudah	0.0078	272	0.01537	0.00093

Paired Samples Test									
		Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
H1	ARSebelum - ARSesudah	-0.00133	0.05972	0.00362	-0.00846	0.00580	-0.367	271	0.714
H2	TVASebelum - TVASesudah	0.00094	0.01367	0.00083	-0.00069	0.00257	1.135	271	0.257

Based on the result of the hypothesis test above, it can be concluded that:

H₁: Rejected because the value of sig $0.714 > 0.05$ which means there is no difference in market reaction (abnormal return) from before and after ISRA announcement during the period of 2009-2016.

H₂: Rejected because the value of sig $0.257 > 0.05$ which means there is no difference market reaction (trading volume activity) between before and after ISRA announcement during the period of 2009-2016

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the results of statistical tests on the abnormal return of ISRA-winning companies, before and after the announcement date, the researcher found that there is no significant difference between abnormal return before and after the date of ISRA announcement from 2009 to 2016. This is shown from the t count $< t$ table with significance above 0.05. In another word, H_{1is} is rejected. Thus, investors do not respond to the ISRA announcement as something that has information content. Investors do not respond to ISRA announcement as information that can be taken into consideration in making a decision.

Based on the results of statistical tests on trading volume activity, there is no difference in the trading volume of shares before and after the date of the ISRA announcement from 2009 to 2016. This is based on statistical data that shows the value of t count $<$ t table with significance above 0,05. In another word, H_2 is rejected. Thus, the ISRA announcement did not attract investors from purchasing shares of the company even though the company has won ISRA award.

Suggestion

The suggestions presented in this research are:

1. It fits for the company to make sustainable reporting because the program is already established in the law. Sustainability reporting program has many advantages and can be used as one of the reference units in making investment decisions by investors.
2. The ISRA Organizer, NSCR, should keep holding such an event because it is advantageous to raise awareness of both companies and government agencies in making sustainable reports.
3. The government should participate intensively in the implementation and development of sustainability reporting in Indonesia, and tighten the rules as stated in Law No. 40 Article 74 paragraph 1.
4. Investors and potential investors should use the sustainability reporting as an alternative in making investment decisions in addition to using financial statements.
5. The next researcher may use another method in calculating expected return using three models at once to identify the difference in market reaction. These three expected return models are market model, the mean adjusted model, and market adjusted model.