The Influence of Impression Management in Sustainability Reports on Company's Performance

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DECLARATION OF ORIGINALITY

I, Gusti Ayu Komang Riyani, hereby declare that this thesis is real and accurate to be my own work, especially written for partial requirement to Undergraduate Program of Accounting, and has not been presented in any other occasions. I bear full responsibility for my undergraduate thesis.

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MOTTO AND DEDICATION

"Challenge is the best **EXPERIENCE**"

"Difficult? Yes. But, Could I do? **OF COURSE!"**

(Taken from Mr. Kuscahyo Budi Prayogo in the middle of my work to finish this undergraduate thesis)

"Birds don't just fly, they **fall down** and **get up**"

(Taken from "Zootopia" that I watched on April 5th, 2017)

I dedicate this thesis for:

My beloved papa

My beloved mama

My dearly loved brother

PREFACE

First of all, I would like to express my gratitude to Allah SWT, Lord of the worlds, for all of the blessings and guidance. Thank you very much for giving me health, strength, and ability to complete my undergraduate thesis.

Finally after struggling a few months full of immense effort, I finished my undergraduate thesis entitled: **The Influence of Impression Management in Sustainability Reports on Company's Performance.** However, I do realize that in accomplishing this thesis will not running smoothly and there are many people who give help, support, wishes, and time for me. Therefore, I would like to thank to:

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ABSTRACT

This study is aimed to investigate the effect of impression management of the company performance. The impression management was measured by selectivity, distortion, narcissism and the company's performance was measured by ROA and Tobin's Q. This study also used leverage and size as control variables. Multiple regression analysis was used to test all listed companies in Indonesia Stock Exchange during the year of 2011-2015. The result of this study is selectivity has positive influence on financial and market performance. Then, distortion has negative effect on financial and market performance. However, narcissism has not significant influence on financial and market performance. Thus, impression management has significant effect on company's performance. The finding of study is the company with displays more favorable graph tends to improve company's performance. The company that has poor performance tends to have greater company risk. As a result, the companies tend to distort their graphs. This research can be applied to stakeholder to show company performance whether it is in good or bad performance. The further study may be increase the number of sample by using annual report as basic to do assess impression management.

Keywords: company performance, sustainability report, impression management, selectivity, distortion, narcissism, ROA, Tobin's Q

ABSTRAK

Penelitian ini bertujuan untuk untuk menyelidiki pengaruh manajemen kesan terhadap kinerja perusahaan. Manajemen kesan diukur dengan selektivitas, distorsi, dan narsisme, sedangkan kinerja perusahaan diukur dengan ROA dan Tobin's Q. Penelitian ini menggunakan leverage dan ukuran perusahaan sebagai variable kontrol. Analisis regresi berganda digunakan untuk menguji seluruh perusahaan yang terdaftar pada Bursa Efek Indonesia (BEI) pada tahun 2011-2015. Hasil penelitian ini adalah selektivitas memiliki pengaruh positif terhadap kinerja keuangan dan pasar. Selanjutnya, distorsi berpengaruh negative pada kinerja keuangan dan pasar. Akan tetapi, narsisme tidak berpengaruh signifikan terhadap kinerja keuangan dan pasar. Perusahaan yang menampilkan lebih banyak grafik menguntungkan cenderung untuk meningkatkan kinerja perusahaan. Sementara, perusahaan yang memiliki kinerja buruk cenderung memiliki risiko yang tinggi. Oleh karena itu, perusahaan akan terlibat untuk mendistorsi grafik. Penelitian ini dapat membantu stakeholder untuk melihat kinerja perusahaan dalam keadaan baik atau tidak. Penelitian selanjutnya diharapkan dapat menambah jumlah sampel dengan menggunakan laporan tahunan sebagai dasar untuk mengukur manajemen kesan.

Kata kunci: kinerja perusahaan, laporan keberlanjutan, manajemen kesan, selektivitas, distorsi, narsisme, ROA, Tobin's Q

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CHAPTER I

INTRODUCTION

1.1. Background

Recently, the development of business world is heavily influenced by the change of economic environment. The companies are required to be more transparent in disclosing corporate information in order to compete in the business world. Company's information may include financial reporting which is reporting the performance of the company for a specific period in which the company disclosed in a report, such as annual report. The annual report is the main result in the accounting process. The companies use an annual report to report the company's performance in the past and projected growth of the company in the future to the stakeholders.

Financial report disclosure has an dobjectives. According to International Financial Reporting Standards (IFRS), the company reports a quality company's information that can be compared with others company's financial report. Therefore, the financial report of the company can help users to evaluate the company's performance which is useful as a material consideration in terms of making decisions. In addition, financial report is considered as a tool of corporate responsibility to shareholders. Meanwhile, Ikatan Akuntan Indonesia (IAI) stated that financial report provides the information that related to the financial position report and its alteration and also company's achievement that is useful in decision making.

Basically, report disclosure has two types: mandatory and voluntary disclosure. The mandatory disclosure is information that must be disclosed by companies and it is regulated by a country. According to BAPEPAM-LK No. Kep-347/BL/2012, 25 June 2012 (BAPEPAM, 2012), the companies that listed in stock exchange must disclose financial report, both consolidated statement and entity report. In addition, mandatory disclosure also aims to avoid the stakeholder of misleading information (Andriyanto et al., 2011). Contrary with the mandatory disclosure, voluntary disclosure is information voluntarily provided by companies to be disclosed to improve the credibility of company financial report (Nuswandari, 2009).

One example of voluntary disclosure is sustainability report. Sustainability report is a measurement practice, disclosure, and accountability of the company's performance in achieving sustainability. According to World Business Council for Sustainable Development, sustainability report is a report that discusses the company's behavior and how company contributes to economic development, but the company is always improving quality of life for workers and surrounding communities (Watts et al., 1999).

Finch (2005) stated that the purpose of issuing sustainability report is to keep a company survive for a long time. Company can ensure environmental and social impact to conform to society expectation when the company has succeeded in funding its activity. Therefore, sustainability report can be used as a tool to communicate the company performance to society (Idowu and Filho, 2010). In other word, the sustainability report shows that the company perform well, proven by the report of the social and environmental performance.

Although sustainability report is a voluntary disclosure in Indonesia, some countries apply the sustainability report as mandatory disclosure, such as Netherlands. The Netherlands has a principle that every company should be responsible for their activity to decrease environment impact, especially for company which has serious effects on environment (Hoffmann, 2003). Similar with Netherlands, France has decided that all companies listed in France must publish report that contains sustainability issues, such us social and environmental. The law has been implemented since January 2002. Based on KPMG observation in 2003, sustainability report in Netherlands increased 35%, so do France for 22%. So, the company must issue the good report even the company has the poor environmental performance to makes stakeholder interesting. To avoid the practice that might mislead the stakeholders, an impression management need to be applied.

Impression management is a unique method that focuses on influencing people's perspective. Study by Sandberg and Holmlund (2015) concluded that organizational impression management refers to behaviour that is used to actively shape the impressions. Someone who try to put their behaviour to others people's in order to create a perception of how they perceive, treat, evaluate, and sometimes they behave in others ways just to create certain impression in other's perception is called impression management (some people called as self-presentation) (Dur et al., 2014; Leary and Kowalski, 1990). Furthermore, Piwinger and Ebert (in Dur et al., 2014) stated that the process in influencing people's perception about something by purposely or accidentally, then reported through narrative, quantitative, and visual disclosures to manage the corporate image (Cooper and Slack, 2015).

There are many ways to provide impression management in company's report. For example is use the graph in the company report. The company that use of graphs have a mission to affect stakeholder's perception rather than give accurate and fair information (Beattie and Jones, 2000; Falschlunger et al., 2015). Therefore, it is imperative to establish standardized use of graphs, so it can mitigate misleading information (Falschlunger et al., 2015). The reason company uses the graph in company report is to facilitates the stakeholders to read and analyze the overall company's performance quickly. The key of the successful communication between public and company through impression management (Fieseler and Ranzini, 2015) can help manager to achieve an authentic self-representation from their charismatic leadership.

Impression management has a special aspect when the company's reporting their performance. When the company has a high risk and poor performance, graphics in the annual report only represents a "good news" (Jones, 2011; Leung et al., 2015) This statement is also confirmed by Tobergte and Curtis (2013) that the manager would be optimistic to reporting a good news of the current financial performance. In addition, the report indicated only contain information that has been manipulated for statisfy benefit of managers and to distract investors attention from bad news (Melloni, 2015).

Therefore, several prior studies concluded that impression management occurred in almost every company report. Research conducted by Cho et al. (2012) found that the practice of impression management more visible on graph with poor performance in the company social report. Meanwhile, according to Beattie and Jones (2002) and Goundar (2009), impression management occurs in the annual report by using the graph selectively and showing the graph distortion. Furthermore, Jones (2011) said that the company tends to display the graph with the good trend rather than display the graph with the bad trend in environmental and social report to distract investors from negative news (Leung et al., 2015).

However, the findings of prior studies showed some weakness. First, the researchers did not compare all performance (social, environmental, and financial) on their research. Some researchers focused on social and environmental performance on the sustainability report (Cho et al., 2012) or focused on financial performance on the financial report (Beattie and Jones, 2000; Goundar, 2009). Second, some researchers still used GDI (Graph Discrepancy Index) to measure distortion (Beattie and Jones, 2000; Goundar, 2009).

The measurement of graph distortion was developed by Tufte (1983). According to Tufte (in Mather et al, 2005), the number shown in graph is physically quantified on the surface of graph and it must be directly proportional with the number of the reflection. LF (Lie Factor) is the formula to measure the graph distortion that calculates the size of the effect shown in the graph divided by the size of the effect in the data. This formula is a simple measurement as a generic measurement of differences term of graphs representational.

In addition, Steinbart (1989) modified LF developed by Tufte by using GDI which compares the impact displayed in graph with the impact in data. Hence, GDI compares the change of the first column and the last column with the change of first data and last data. Similar with LF, GDI is relatively simple measurement. Additionally, GDI gives a sign if the distortion has a positive value, which means exaggeration. Otherwise, if the distortion has a negative value, it means understatement (Mather et al., 2005).

Meanwhile, GDI has a weakness to measure the graph distortion. Mather et al. (2005) assumed that GDI is inconsistency measurement and cannot be used to compare among graphs. Mather et al. (2005) discovered the singularity in GDI measurement. There are two graphs that displayed differently. When the graphs are calculated, GDI shows the same value even though the graph display differently. This is clear that GDI is not consistent and not accurate.

Moreover, Mather et al. (2005) developed RGDI (Relative Graph Discrepancy Index) as an alternative measurement. The RGDI is a better comparative measurement which compare the first data point and the height of the first column on graph to determine the height of the last column on graph. RGDI is more consistent within the range of expected input values and linear. Then, the small change in the large data do not affect because graph representation reflects the company’s data. Further, zero (0) is the last point which is discontinuity in the function. When the measurement of RGDI at value of 0, it means the graphs already imaged correctly.

This research focuses on filling in the research gap. There are many researches that focus on the sustainability report in the world (Cho et al., 2012; Cooper and Slack, 2015; Jones, 2011; Sandberg and Holmlund, 2015), but a little research has been conducted in Indonesia. Therefore, this research uses sustainability report to extend the literature. This research use social, environmental, and financial performance on the sustainability report. The expectation is that every value of selectivity and distortion will be represented by each performance with equal proportion. Then, the research uses RGDI as measurement of distortion. Falschlunger et al. (2015) considered that RGDI is better measurement than GDI, because GDI is not proportional and consistent to measure distortion. Additionally, this research uses narcissism as one of independent variables that measuring impression management.

This study uses financial performance and market performance as dependent variables. Some studies use ROA (Return on Assets) as a fundamental or financial performance (Leung et al. 2015; Melloni, 2015). Further, market performance measured by Tobin's Q which has not been widely studied (Leung et al., 2015). This research uses size and leverage as control variables (Leventis and Weetman, 2004; Melloni, 2015).

1.2.Research Problem

The existence of the impression management may result some problems that potentially lead to distract stakeholders in making a decision. The manager publishes the sustainability report to reporting their performance. However, the manager want to maximizing the value of the company through publishes sustainability report. The manager tends to create and display only good news in their report to attract investors interested in the company to invest.

Accordingly, this research use two dependent variables that have been explained before, because the variables used frequently by stakeholders (especially investors) to making decision. Therefore, the research question from this study, include:

a. Does impression management affect the financial performance of the company?

b. Does impression management affect the market performance of the company?

1.3. Research Objectives and Contributions

This research has two objectives. First, to investigate the effect of impression management to financial and market performance of the company. Second, to determine the extent of impression management in Indonesia. The contribution of this research include:

a. Theoretical contribution, this study is expected to extend the accounting literature for further research and enhance the development of the theories related to the subject of this study, so that the reader will understand the meaning of impression management.

b. Practical contribution, this research is intended to be used as consideration in decision making when the investors making investments, and provide knowledge about the existance and the effects of impression management in the sustainability report to the government and society.

1.4. Outline of the Research

CHAPTER I : INTRODUCTION

This chapter explain about why the researcher choose impression management as the topic of research, research problem, research objectives and contribution as well as systematic of research that be contained in this research.

CHAPTER II : LITERATURE REVIEW

This chapter reviews the relevance theories used in variables and explaination of the concept of the research. Furthermore, this chapter describe some prior researches, the theoretical framework, and hypotheses development.

CHAPTER III : RESEARCH METHODS

This chapter describes the operational definition of variables, population and sample, type and source data, data collecting method and analysis methods in using quantitave approach with regression analysis software of SPSS 21.

CHAPTER IV : RESULT AND DISCUSSIONS

This chapter discusses the description about of the object used in research, data analysis, and interpretation of statistical results from research hypothesis testing.

CHAPTER V : CONCLUSION

This chapter consists of the final conclusions and limitations of the research conducted, and also the suggestion that might be considered for similar studies in the future.