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THE EFFECT OF SUSTAINABILITY REPORTING, COMMUNITY DEVELOPMENT, AND WASTE MANAGEMENT PROGRAMS ON THE PROFITABILITY OF FAST-MOVING CONSUMER GOODS (FMCG) COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE FOR THE PERIOD 2022-2024

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ABSTRAK

Changes in global business dynamics require companies to not only focus on profit, but also pay attention to social responsibility and environmental sustainability through the application of the Triple Bottom Line concept, which emphasizes a balance between profit, people, and planet. The Fast-Moving Consumer Goods (FMCG) sector is one of the sectors most vulnerable to sustainability issues due to its high production volume and use of disposable packaging, which has the potential to generate waste. This study aims to examine the effect of Sustainability Reporting (SR), Community Development (CD), and Waste Management Program (WMP) on the profitability of FMCG companies listed on the Indonesia Stock Exchange during the period 2022–2024.

The research method used a quantitative approach with panel data regression analysis and a Random Effects model. Each sustainability variable was measured using binary indicators to represent the existence of the program being implemented, while profitability was proxied by Return on Assets (ROA). The results of the analysis showed that SR, CD, and WMP had no significant effect on profitability, either partially or simultaneously. The Adjusted R^2 value of -0.0047 indicates that these three variables only explain 3.6% of the variation in company profitability, while the rest is influenced by other factors outside the model. These findings confirm that the implementation of sustainability practices in FMCG companies in Indonesia is more oriented towards achieving social legitimacy and long-term reputation, rather than increasing short- term financial profits.

Keywords: *Sustainability Reporting, Community Development, Waste Management Program*

INTRODUCTION

Developments in the business environment have compelled companies to shift from focusing solely on financial gain toward broader responsibilities, manifested through the Triple Bottom Line Profit, People, and Planet [1]. This principle requires companies to balance economic performance with social and environmental responsibilities. In Indonesia, the need to implement sustainable practices has become increasingly urgent, especially to maintain corporate legitimacy in the eyes of stakeholders [2].

The Fast-Moving Consumer Goods (FMCG) sector plays a central role in daily consumption but faces complex sustainability challenges. Its mass production characteristics and heavy reliance on single-use packaging make it a major contributor to environmental waste issues. Therefore, FMCG companies' commitment to transparency and environmental management, as disclosed in Sustainability Reports, is crucial for mitigating operational risks and maintaining long-term value. Previous studies, such as those by

[2] and [2], show that Sustainability Reporting (SR) is positively correlated with financial performance, particularly Return on Assets (ROA). Similar findings by[3] and [4], indicate that disclosed environmental and social performance significantly impacts firm value. Although sustainability disclosure has been tested, the literature is still limited in testing the specific effects of actual program implementation, namely Community Development (CD) and Despite extensive examination of sustainability disclosure, the

literature remains limited in assessing the influence of specific and tangible programs namely Community Development (CD) and Waste Management Program (WMP) on FMCG firms' profitability. Prior research often relies on disclosure indices[5] and [1], resulting in a gap regarding the combined effects of transparency (SR), social impact (CD), and environmental efficiency (WMP). This gap lies in the lack of studies integrating all three key sustainability pillars within the high-risk FMCG sector, which is highly susceptible to waste-related environmental issues [6].

The growing adoption of sustainability practices among FMCG companies has not been fully aligned with improvements in financial outcomes. Although firms publish sustainability reports and implement social and environmental programs, empirical findings reveal that the financial benefits of such initiatives have yet to materialize directly. This raises the question of whether sustainability implementation in the FMCG sector is driven more by legitimacy motives and stakeholder expectations than by short-term profitability.

Previous research also presents limitations, as most studies focus solely on disclosure levels rather than actual program implementation, such as CD and WMP initiatives. Furthermore, only a few studies examine SR, CD, and WMP simultaneously, particularly within the environmentally sensitive and socially pressured FMCG sector. These limitations underscore the need for research that assesses the integrated impact of all three sustainability programs on financial performance.

This study contributes to the literature by adopting a different approach using binary variables to evaluate the factual presence of sustainability programs rather than merely assessing disclosure levels. It also expands the literature by testing the three sustainability pillars Sustainability Reporting, Community Development, and Waste Management Program simultaneously within the operationally intensive and environmentally exposed FMCG sector. The findings are expected to provide new insights into the relationship between sustainability implementation and profitability.

Therefore, this study aims to empirically analyze the partial and simultaneous effects of Sustainability Reporting (X1), Community Development (X2), and Waste Management Program (X3) on the Profitability (ROA) (Y) of FMCG companies listed on the Indonesia Stock Exchange using binary/dummy-based measurement that reflects the factual implementation of sustainability programs.

RESEARCH QUESTIONS

1. Does sustainability reporting significantly affect the profitability of FMCG companies?
2. Does community development significantly affect the profitability of FMCG companies?
3. Does the Waste Management Program significantly affect the profitability of FMCG companies?
4. Do all three variables significantly influence the profitability of FMCG companies when tested simultaneously?

LITERATURE REVIEW

Stakeholder Theory

Stakeholder Theory asserts that a company is accountable not only to shareholders but also to all parties with vested interests such as employees, consumers, suppliers, society, and the environment [6]. In this context, Sustainability Reporting (SR), Community Development (CD), and Waste Management Program (WMP) serve as mechanisms for a company to manage its relationships with stakeholders in order to maximize long-term firm value The theory assumes that companies will receive support and legitimacy when they meet stakeholder expectations. Implementing SR, CD, and WMP demonstrates such commitment, helping mitigate social, operational, and reputational risks that influence profit stability..

Legitimacy Theory

Legitimacy Theory emphasizes that companies strive to ensure their operations fall within societal norms and expectations[7]. When FMCG companies implement sustainability programs and disclose them transparently, they attempt to secure and maintain social legitimacy. The absence of legitimacy may result in social risks, conflicts, or even consumer boycotts, which can negatively affect business continuity and profitability [7]. For the environmentally sensitive FMCG sector, sustainability programs act as legitimacy mechanisms to reduce public pressure and support ongoing operations.

Financial Performance (Profitability)

Profitability refers to a company's ability to generate profit through the utilization of its assets. This study uses Return on Assets (ROA) as a proxy [2], [4]. ROA is widely used in the literature to reflect how efficiently companies use their assets to generate earnings.

HYPOTHESIS DEVELOPMENT

H1: Sustainability Reporting (X1) has a significant positive effect on Profitability (ROA).

Definition, Practices, and Measurement

SR is a non-financial report that includes economic, environmental, and social performance [3]. The hypothesis is based on the notion that transparency through SR enhances investor trust and improves market perception. Prior evidence shows that SR is positively associated with ROA[8], [2]. SR is measured using a binary variable (1 if the company publishes a separate SR, 0 otherwise).

Effect on Profitability (H1)

Comprehensive SR disclosure indicates strong non-financial risk management quality and attracts ESG-oriented investors. Study[2] empirically found that economic indicators within sustainability reports have a significant positive effect on profitability (ROA). Additionally,[5] reinforces that social performance and product responsibility disclosures positively affect financial performance.

Feedback Loop Between SR and Profitability

The relationship between SR and profitability is also reciprocal. High profitability provides resources for more comprehensive sustainability reporting. Study [4] found that profitability (ROA) positively influences SR disclosure, supporting the argument that financially healthy companies have greater capacity to be transparent.

H2: Community Development Program (X2) has a significant positive effect on Company Profitability (ROA)

Definition, Practices, and Measurement

The second hypothesis is based on the notion that Community Development (CD) activities represent long-term social investments capable of improving corporate image and broadening public support. Strong social relationships help reduce conflict risks, strengthen consumer loyalty, and generate additional value for the company. Therefore, CD is expected to contribute positively to profitability. CD reflects the social dimension of the triple bottom line. Corporate initiatives in community empowerment such as social, educational, or health programs are long-term goodwill investments[4]. These investments affect financial performance by enhancing reputation, brand loyalty, and reducing social conflict risks, which can indirectly reduce non-operational costs and increase profitability[6].

Effect on Financial Performance (H2)

Strategic investment in CD creates social capital and valuable reputation. This positive reputation enhances brand equity and minimizes potential social conflicts. Study[3] demonstrates that the implementation of Corporate Social Responsibility including CD programs has a significant positive effect on profitability (ROA and NPM), confirming that strong social performance yields financial benefits.

Goodwill Enhancement and Operational Stability

Strong social performance can enhance goodwill and customer loyalty. Operational stability free from social disruptions is essential for maintaining asset efficiency, thereby supporting higher ROA.

H3: Waste Management Program (X3) has a significant positive effect on Company Profitability (ROA

Definition, Practices, and Measurement

The third hypothesis is based on the argument that effective waste management reduces operational costs and minimizes regulatory fines and pressures. Such efficiency depends directly on the quality of the WMP undertaken. WMP represents the environmental aspect of sustainability. Waste management strategies such as recycling, raw material efficiency, and sustainable packaging are directly related to cost efficiency and environmental risk mitigation [1]. Companies that implement effective waste management can reduce disposal costs, avoid environmental penalties, and attract green consumers [9]. Effective WMP is positively correlated with profitability[1].

Simultaneous Effect on Profitability (H4)

Integrated Triple Bottom Line and Holistic Advantage

The simultaneous implementation of SR (X1), CD (X2), and WMP (X3) reflects a comprehensive commitment to the triple bottom line. The strength of this holistic approach lies in its synergy: transparency through SR validates the authenticity of CD and WMP initiatives. Studies[2]and [3] separately show positive effects of SR and CD on ROA, suggesting that their integrated implementation may produce a stronger impact.

Virtuous Cycle and Aggregate Value Enhancement

The combination of all three sustainability variables forms a virtuous cycle that strengthens overall firm value. High profitability enables greater investment in sustainability programs. Study [4] found that profitability (ROA) positively influences SR disclosure. The collective improvement of SR, CD, and WMP reduces non-financial risks and enhances market attractiveness. Study [9] also found that environmental and economic performance positively affect firm value.

Formulation of the Simultaneous Hypothesis

Therefore, the simultaneous impact of these three variables on financial performance is expected to be stronger than their individual effects. The integration of transparency, social goodwill, and environmental efficiency enhances operational stability, supported by evidence showing that SR disclosure positively affects financial performance[5] This combination aims to improve overall asset use efficiency.

H4: Sustainability Reporting (X1), Community Development (X2), and Waste Management Program (X3) simultaneously have a significant positive effect on Company Profitability (ROA)

The simultaneous hypothesis is developed based on the understanding that integrating environmental, social, and transparency dimensions produces stronger effects than isolated implementation. These three sustainability programs represent a strategic commitment to long-term economic value through enhanced efficiency, reputation, and corporate legitimacy.

RESEARCH METHOD

Types and Sources of Data

This study is based on secondary data from annual reportsand sustainability reports of fast-moving consumer goods (FMCG) companieslisted on the Indonesia Stock Exchange (IDX) from2022 to 2024. The research populationconsists of all FMCG companies listed on the IDX (Indonesia Stock Exchange)with a sample of 25 companies selected through purposive sampling based on the followingcriteria: (1) listed on the Indonesia Stock Exchange (IDX) as afast-moving consumer goods (FMCG) company, (2) has a comprehensiveSustainability Report or Annual Report from 2022-2024 and (3)have documentation related to Community Development and WasteManagement for the period 2022-2024, resulting in 75 panel data observations.

Operational Variables

To test the hypothesis, the variables in this study were measured using ratios and binary/dummy variables, which are summarized as follows:

Table 1. Operational Variables

Variable	Simbol	Conceptual Definition	Measurement and Scale	Formula/Description
profitabilitas	Y	The ability of a company to generate profits from its total assets.	Ratio (Ratio Scale)	$ROA = \frac{Laba\ Bersih}{Total\ Aset} x\ 100\%$
Sustainability Reporting	X1	Publication of comprehensiv e reports on the company's ESG performance.	Binary/Dumm y Variable (Nominal Scale)	1=The company publishes a separate Sustainability Report 0=Does not publish .
Community Development	X2	Implementation of structured local community	Binary/Dummy Variable (Nominal Scale)	1=The company publishes a separate Sustainability Report 0=Does not publish

		empowerment programs.		
Waste management	X3	A structured waste management program, terukur, dan berkelanjutan.	Binary/Dummy Variable (Nominal Scale)	1=The company publishes a separate Sustainability Report 0=Does not publish

Data Analysis Methods

Data analysis was performed using panel data regression with the following steps: First, model selection tests were conducted, including the Chow test to determine whether the FEM (Fixed Effect Model) was better than the CEM (Common Effect Model), the Hausman test to determine whether the FEM (Fixed Effect Model) or REM (Random Effect Model) was more appropriate, and the Lagrange Multiplier (LM) test to select the best model between the Common Effect and Random Effect Models. Second, classical assumption tests were conducted, covering normality, multicollinearity, heteroscedasticity, and autocorrelation, REM model estimation, and finally hypothesis testing with t-tests, f-tests, and coefficient of determination tests.

RESULTS AND DISCUSSION

Estimation Model Selection Results

Model selection was performed using the Chow, Hausman, and Lagrange multiplier tests in accordance with the panel data technique described by [10]. This technique was also used by [11] to select the optimal model for analyzing the relationship between sustainability and profit in Indonesia.

Table 2. Hasil pemilihan Model Estimasi

Test	**Probabilty**	**Desicion**
Chow Test	0.0000	Fixed Effects Model
Hausman Test	0.8185	Random Effects Model
Lagrange Multiplier (LM)	0.0000	Random Effects Model

The model selection process begins with the Chow test, which is used to compare the Common Effect Model (CEM) and the Fixed Effect Model (FEM). This test asks whether the intercepts of each cross-section unit (company) are the same or different. The hypothesis (H0) in this study is that comparing the Common Effect Model (CEM) is more appropriate than the Fixed Effect Model (FEM). If the probability value (p- value) is less than the significance threshold ($\alpha = 0.05$), H0 is rejected and the Fixed Effect Model (FEM) is used [10]. In this study, a p-value of less than 0.0000 indicates that individual company characteristics are significant and must be included in the model, which produces a probability value of 0.0000. Therefore, the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM), because individual characteristics differ among FMCG businesses in the sample. These results are consistent with the conclusion [11] that FEM is appropriate when the cross-section has significant structural changes.

Next, the Hausman test is used to determine whether to use the Fixed Effect Model (FEM) or Random Effect Model (REM). This test determines whether the error term is correlated with the independent variable. If the null hypothesis (H0) is accepted, then REM is more efficient than FEM. The selection is based on the probability value; if the p-value is > 0.05, then REM is selected, and if the p-value is < 0.05, FEM is more acceptable [11]. In this study, the Hausman test produced a probability value of 0.8185 > 0.05, indicating that H0 is not rejected and the Random Effect Model (REM) is the better choice. According to Baltagi (2021), REM is used when the variation between companies is random and uncorrelated with the independent variable, which applies to FMCG companies with comparable operational characteristics.

Finally, the Lagrange Multiplier (LM) test was used to compare the Common Effect Model (CEM) with the Random Effect Model (REM). This test assesses the relevance of random effects in the model. The null hypothesis (H0) states that the variance of individual effects is equal to zero, which means that the Common Effect Model is more appropriate. If the p-value is < 0.05, H0 is rejected and the Random Effect Model (REM) is accepted. In this study, the probability value was 0.0000, indicating that REM is more appropriate than CEM [11]. The consistency of these three tests supports the selection of REM as the final model, which is in line with panel data techniques [2] in sustainability research in Indonesia.

Classical Assumption Test

The classical assumption test is used to ensure the validity and reliability of the regression model. The following table shows the results of the classical assumption test.

Table 3. Classical Assumption Test

Uji	Metode	Hasil	Nilai	Keterangan
Normalitas	Jarque-Bera	Probabilitas	0,596	Terpenuhi (p>0,05)
Multikolinearitas	Correlation Matrix	Koefisien Kolerasi	< 0,90	Terpenuhi
Heteroskedasitas	Glejser Test	Probabilitas SR	0,0449	Tidak Terpenuhi
Autokelasi	Durbin-Watson	Statistik DW	1,53	Terpenuhi

Based on the table above, the Jarque-Bera test is used to determine whether the model residuals are normally distributed. This test uses measurements of skewness and kurtosis of the residual distribution. The null hypothesis (H0) states that the residuals follow a normal distribution. If the p-value exceeds 0.05, H0 is not rejected, which means that the assumption of normality is satisfied [12]. In this study, a p-value of 0.596 > 0.05 indicates that the residuals follow a normal distribution.

The multicollinearity test identifies strong relationships between independent variables in the regression model. Multicollinearity can be detected using a correlation matrix and a correlation coefficient threshold of 0.80-0.90. If no correlation coefficient exceeds this threshold, the model is free from significant multicollinearity [13]. This study did not find multicollinearity because all correlation coefficients were less than 0.90.

The Glejser test for heteroscedasticity found uneven variance in the residuals. This test compares the absolute value of the residuals with the independent variables. Heterogeneity arises when an independent variable has a significant effect on the absolute residual value (p-value < 0.05) [12]. This study found heteroscedasticity in the Sustainability Report variable, with a probability value of 0.0449 < 0.05.

The Durbin-Watson test reveals the relationship between the residuals in period t and the residuals in period t-1. A Durbin-Watson value of around 2 indicates no autocorrelation. If the DW statistic value is between 1.55 and 2.46 (for 75 observations and three independent variables), the model is free of autocorrelation [12]. A DW value of 1.53 in this study indicates no significant autocorrelation.

Random Effects Model Estimation

Table 4. Random Effects Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob
ROA	0.111384	0.049428	2.253467	0.0273
Sustainability Report	-0.012317	0.011145	-1.105154	0.2728
Community Development	-0.004235	0.009787	-0432769	0.6665
Waste Management	0.014884	0.009759	1.525136	0.1317
R-squared	0.036015	Adjusted R-squared	-0.004716	
F-statistic	0.884208	Prob(F-statistic)	0.453568	
Durbin-Waston	1.533623			

The regression equation is $\mathbf{Y = 0.111384 - 0.012317X_1 - 0.004235X_2 + 0.014884X_3}$

The EGLS Panel estimation using the Random Effect Model approach shows that sustainability reports (β = -0.012; p=0.273), community development (β = -0.004; p=0.666), and waste management (β = 0.015; p=0.132) do not have a significant impact on company profitability. The overall model is insignificant (F statistic p=0.454) and has low explanatory power (Adj. R^2 = -0.005), indicating that the sustainability factors in this study cannot explain the variation in the profitability of FMCG companies. However, the

positive direction of the relationship in Waste Management suggests a potential contribution that needs to be further explored using different methodological approaches.

Hypothesis Testing

Based on the random effects model estimates, hypothesis testing can be conducted as follows:

Partial Hypothesis Testing (t-test)

The t-test is used to measure the significance of the partial effect of each independent variable on the dependent variable. The null hypothesis (H0) states that the regression coefficient is not significant. If |t-count| > t-table or p-value < 0.05, H0 is rejected, indicating a significant effect of the independent variable[13]. The results of the test are presented in Table 5.

Table 5. Partial Hypothesis Testing (t-test)

Variabel	t-hitung	t-tabel	Probability
ROA	2.253467	1,992102	0.0273
Sustainability Report	-1.105154	1,992102	0.2728
Community Development	-0.432769	1,992102	0.6665
Waste Management	1.525136	1,992102	0.1317

Based on Table 5, the t-test shows that the three sustainability variables do not have a significant effect on profitability at a significance level of 5%. This is evidenced by the absolute value of the t-count for each variable being smaller than the t-table value (1.992) and the probability value being greater than 0.05.

Sustainability Report (X1) has a negative coefficient (β = -0.012) and is not significant (p=0.273). This result does not support Hypothesis 1 (H1). This small negative relationship can be explained using Legitimacy Theory, whereby companies may invest heavily in preparing and publishing sustainability reports as a form of social accountability, which may actually reduce short-term profits without providing immediate financial rewards[14].

Community Development (X_2) The coefficient is negative (β = -0.004) and insignificant (p=0.666). This finding leads to the rejection of Hypothesis 2 (H2). This shows that altruistic community development efforts are not always associated with short-term profits. Benefits such as better reputation and social legitimacy may be long-term or intangible [15].

Waste Management (X_3) has the highest coefficient in the positive direction (β = 0.015). Although not statistically significant (p=0.131), thus rejecting Hypothesis 3 (H3), this positive sign provides useful information. This finding is consistent with the Resource-Based View (RBV), which states that effective operational procedures such as waste management can generate competitive advantage through cost savings and process optimization [16]. This potential contribution requires further investigation.

Simultaneous Significance Test (F-test)

The F-test is used to assess the significance of the total effect of all independent variables on the dependent variable. The null hypothesis (H0) states that all regression coefficients are equal to zero. If the estimated F value exceeds the F table value or the p value is less than 0.05, then the null hypothesis is rejected [12].

Table 6. Simultaneous Significance Test (F-test)

	S.D.	Rho
Cross-section random	0.093986	0.8451
Idiosyncratic random	0.040231	0.1549

Weighted Statistics

R-squared	0.036015	Mean dependent var	0.025161
Adjusted R-squared	-0.004716	S.D. dependent var	0.039547
S.E. of regression	0.039640	Sum squared resid	0.111564
F-statistic	0.884208	Durbin-Watson stat	1.533623
Prob(F-statistic)	0.453568		

Based on the F-test results, the calculated f-value is 0.884208, while the F-table value is 2.733647, with a significance level of 0.453568 (> 0.05). This indicates that the variables of sustainability report, community development, and waste management do not have a significant effect on profit (ROA). As a result, the current regression model fails to explain the variation in the overall change in the dependent variable.

Determination Coefficient Test Results (R2)

R-squared is a measure of how much variation in the dependent variable can be explained by the independent variables. Adjusted R-squared is R-squared adjusted for the number of independent variables. A negative Adjusted R-squared value indicates that the model used is ineffective or there is an error in the model definition [13]. This study's model suitability value is -0.0047 for the adjusted R-squared value and only 0.036 for the R-squared value. This indicates that the three sustainability variables can only explain about 3.6% of the variation in corporate profits (ROA). A negative R-squared value indicates a lack of model specificity and inadequate explanatory power. As a result, other variables outside the model explain 96.4% of the variation in ROA [15].

Comprehensive Discussion

The findings of this study repeatedly show that sustainability practices measured by the variables of sustainability reports, community development, and waste management do not have a significant effect on the short-term profits of Indonesian FMCG businesses. The model as a whole is insignificant, with very low explanatory power. This supports Legitimacy Theory, which states that FMCG companies adopt these practices more for the need to obtain and maintain social legitimacy, manage reputational risk, and meet the increasingly high expectations of stakeholders than for short-term financial gain (Deegan, 2002). The characteristics of the FMCG sector, which generates large amounts of packaging and waste, make it highly vulnerable to social and environmental scrutiny, thereby supporting these legitimacy incentives.

The positive coefficient on the waste management variable, although not statistically significant, is the most promising result. This indicates that environmental programs directly related to operational efficiency have the potential to contribute to profits consistent with a resource-based view. This insignificance may be due to a number of factors, including high initial implementation costs that offset medium-term benefits, or time lag effects that cause financial returns to materialize over a longer period. The low explanatory power of the model (R^2 = 3.6%) has significant implications. This suggests that the profits of FMCG companies are influenced by other fundamental characteristics not included in this model. Supply chain efficiency, brand strength, pricing strategy, and marketing effectiveness may have a much greater influence on ROA than sustainability initiatives during the observation period [15].

CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that sustainability reports, community development, and waste management, both partially and as stimulants, do not have a significant effect on the profits of FMCG companies listed on the Indonesia Stock Exchange (IDX) for the 2022-2024 period. This finding is reflected in the probability values of all independent variables being above the significance level of 5%/0.05 and the F-statistic value being insignificant. In addition, the model's very low explanatory power is indicated by a negative Adjusted R-squared value (-0.0047), which confirms that 96.4% of the variation in profitability is explained by factors outside the scope of this study. These results reinforce the Legitimacy Theory perspective that the adoption of sustainability practices in Indonesian FMCG companies is driven more by the motivation to gain social legitimacy than by short-term profitability considerations. Nevertheless, the positive trend shown by waste management provides preliminary evidence consistent with the Resource-Based View (RBV) that environmental programs integrated with operations have the potential to improve efficiency. The practical implications of this study suggest the need for stronger strategic integration between sustainability practices and companies' core businesses, as well as the importance of considering other fundamental factors that have a greater influence on profitability in future research.

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