




## SUSTAINABILITY PERFORMANCE AND SUSTAINABLE DEVELOPMENT GOALS

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### ABSTRACT

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The purpose of this study was to examine the effect of sustainability performance on the achievement of sustainable development goals (SDGs). This study examines each of the sustainability performance indicators consisting of economic performance, social performance and environmental performance on the achievement of sustainable development goals. The data used in this study are primary data. This study used a quantitative approach with a questionnaire survey model given to division managers in go public companies in the manufacturing sector in Indonesia. The questionnaires that can be processed are 124 respondents from 42 manufacturing companies listed on the Indonesia Stock Exchange that publish annual reports. Methods of data analysis using structural equation modeling with the help of the Smart PLS application. The results showed that the social and environmental performance that has been achieved by the company was seen as capable of supporting the achievement of the SDGs, but that the economic performance has no impact on the SDGs.

**Contribution/Originality:** This study is one of the few studies that examine the effect of sustainability performance on the achievement of sustainable development goals. This research contributes to identifying the dimensions of sustainability performance (economic, social and environmental) to support the achievement of sustainable development goals.

## 1. INTRODUCTION

Sustainable development goals (SDGs) are the highest goals on issues of human rights, economic development and social development (Joseph et al., 2019). SDGs have been widely adopted by many countries with the main goals and objectives of eradicating hunger and poverty, saving the planet and earth from environmental damage and climate change. Agarwal, Gneiting, and Mhlanga (2017) need collaborative action from all parties to support the achievement of the SDGs and work together by emphasizing the 5P's (People, Planet, Prosperity, Peace, and Partnership) (Ghosh & Rajan, 2019). In several studies, it is stated that business has an important role in achieving the SDGs (Betti, Consolandi, & Eccles, 2018; Fernández-Guadaño & Sarria-Pedroza, 2018; Liu, 2016; Sullivan, Thomas, & Rosano, 2017) through their business activities.

Business involvement in the achievement of the SDGs has encouraged companies to show social and environmental responsibility and provide information related to their management because companies are the largest users of natural resources who manage and maintain these resources for their economic interests both in the

short and long term. Companies should not only focus on increasing value through profit maximization but must also concentrate on environmental and social issues in a balanced manner. Corporate responsibility must be based on triple bottom lines, covering financial aspects (profit), social aspects (planet), and environmental aspects (people).

The implementation of the company's success in favor of sustainable development is not only measured by economic performance. Companies that initially focused on profit have now started to focus on social and environmental responsibilities. This paradigm shift is caused by the many impacts of environmental damage caused by the business and it is important to consider a sustainable performance assessment system. Gould (2011) companies that have been successful in instilling sustainability as a form of strategy will tend to be able to improve their sustainability performance.

Sustainable performance is a business response to emerging global problems including in the form of poverty and hunger, high unemployment, climate change and global warming, and others and businesses are expected to respond to these global issues. Ozçelîk and Oztürk (2014) companies that measure and express their responsibility, including social, environmental and economic dimensions, show the company's progress towards sustainable development. The motivation for this study is to determine the extent to which companies, as commercial actors, play a role in SDGS through sustainable performance.

## 2. THEORETICAL BASIS AND HYPOTHESIS DEVELOPMENT

### 2.1. Legitimacy Theory

Guthrie and Parker (1989) assert that legitimacy theory refers to a contract between a community and a business geared towards a social agreement that is a goal of legitimacy. The social contract that is created between the company and the community, although abstract, forms a qualitatively beneficial local community, because it is based on the compatibility between the existence of the company and the system of values existing in the company and environment (Deegan, Rankin, & Tobin, 2002).

This study uses legitimacy theory to explain that sustainability performance plays a role in achieving SDGs. The legitimacy theory is used to interpret and explain the disclosure practices imposed by companies related to social and environmental reporting (Vitolla & Rubino, 2017) which are carried out by companies aiming to meet social standards through their voluntary social responsibility.

### 2.2. Sustainable Development Goals

Sustainable Development Goals (SDGs) Is a sustainable development program in which there are 17 goals with 169 measurable targets with specified deadlines. Agarwal et al. (2017) stated that the SDGs provide a vision and a mission, namely a world free of poverty, injustice and discrimination and a healthy planet for generations to come. The SDGs aim to improve the lives of present and future generations through equality, inclusion and sustainability (Valeria & Miola, 2016).

### 2.3. Sustainability Performance

Harmon, College, and Russell (2007) define sustainability as the ability of a company to achieve business goals and increase long-term shareholder value by embedding the triple bottom line into corporate strategy. Sustainability performance is business performance in all its dimensions and to promote business sustainability (Schaltegger & Wagner, 2006). Epstein (2008) asserts that sustainable performance reflects one of the ultimate goals of the company in terms of compliance-based responsibility and standard performance reporting to meet stakeholder expectations. Research conducted by Abbade, Mores, and Spanhol (2014); Kuhl, Da, Maçaneiro, and Cunha (2016); Abdul-Rashid, Sakundarini, Raja, and Thurasamy (2017); Raj, Samir, and Srivastava (2018) measuring sustainability performance using economic, social and environmental indicators.

Adopting sustainable development activities and reporting on its operational impacts brings many benefits to the company, such as maintaining and expanding economic growth, increasing competitiveness and shareholder value, corporate reputation, customer satisfaction and loyalty, retention of quality employees, increased employee motivation, reduced costs and legitimacy. Ozçelîk and Oztürk (2014); Thomas and Lamm (2012). Alsayegh and Rahman (2020) companies must translate the social goals that are achieved into action to improve occupational health and safety, improve employee relations, fair labor practices in their business operations.

Sullivan et al. (2017) companies are faced with environmental and social issues in their decisions, companies are also required to examine their activity and its environmental and social impact. The company makes performance in terms of sustainable development the main strategy of its activity in order to indirectly promote the creation of sustainable development. This study attempts to test whether sustainability performance based on economic, social and environmental indicators can affect the achievement of the SDGs.

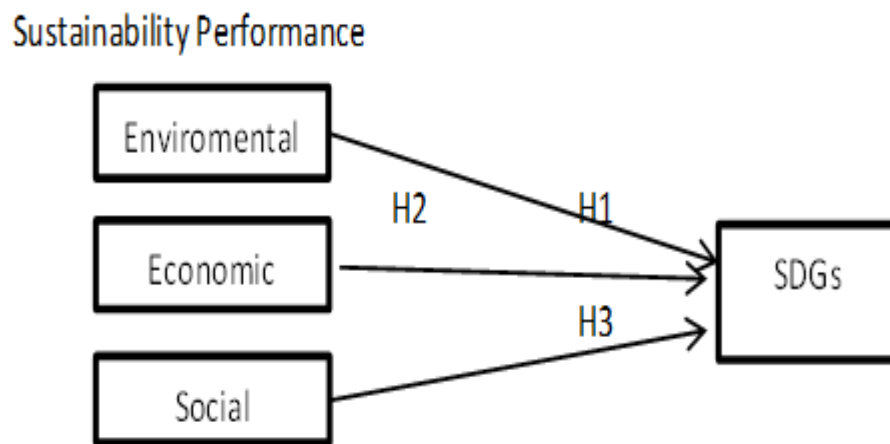


Figure-1. Theoretical model

The following is the hypothesis in this study.

*H1 There is a significant positive influence of environmental performance on sustainable development goals.*

*H2 There is a significant positive influence of economic performance on sustainable development goals.*

*H3 There is a significant positive influence of social performance on sustainable development goals.*

### 3. METHODS

This research method is quantitative and aims to determine the impact of sustainability performance on the achievement of the SDGs. The independent variable in this study is the sustainability performance with 3 indicators, namely economic, social and environmental which consists of 24 statements which have been adjusted to the Indonesian context. Environmental performance was adopted from research by Abdul-Rashid et al. (2017) and Moyo and Wingard (2015) economic performance and social performance were adopted from research by Abdul-Rashid et al. (2017). The independent variables in this study consisted of 18 statements adopting the research of Dimitrov and Davey (2011) and 8 SDG goals (IFAC, 2015).

The data used in this study are primary data. Primary data was obtained by distributing questionnaires on a likert scale to selected samples from the population. Questionnaires distributed to division managers of manufacturing companies listed on the Indonesian Stock Exchange. Division managers were chosen because they were considered accustomed to implementing sustainability indicators in working practices and performance (Maletič, Maletič, Dahlgaard, Dahlgaard-Park, & Gomišček, 2014). This research uses the method of data analysis with PLS. The partial least squares (PLS) method is used to analyze the data in order to test the proposed models and hypotheses.

## 4. RESULT

The survey was conducted in the public manufacturing sector in Indonesia with the division managers as the unit of analysis. A total of 124 managers became respondents in this study. Here are the results of the Smart PLS test in this study.

### 4.1. Validity and Reliability Construct

**Table-1.** Validity and reliability.

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Environmental Performance	0.918	0.931	0.529
Economic Performance	0.883	0.910	0.594
Social Performance	0.912	0.934	0.739
SDGs	0.932	0.941	0.516

Based on Table 1, the AVE value for each construct has a value exceeding the limit of 0.50 (Hair, Hult, Ringle, & Sarstedt, 2014) for each variable and all are valid. The reliability test is used to show the consistency of the instrument in measuring a variable (Willy & Jogiyanto, 2015) states that an instrument is reliable if the composite reliability value  $\geq 0.7$  Cronbach's alpha is more than  $\geq 0.7$ . Based on Table 1 it can be shown that all variables are reliable.

### 4.2. Inner Model Testing

The inner model test in this study uses a prediction oriented measure with the R-Square value.

**Table-2.** Inner model testing.

	R Square	R Square Adjusted
Sustainable Development Goals	0.742	0.735

Table 2 shows that the correlation between the models is moderate- strong for the variable SDGs. Sustainability performance based on economic, social and environmental indicators can explain the SDGs variable of 74% and the rest is explained by other variables.

### 4.3. Hypothesis Test Result

Hypothesis testing is performed to see the effect of variables in this study. Hypothesis test, the resulting value *t-statistic* based on the output of the Smart PLS software is compared to the value of *t-table*, the output of the Smart PLS software is an estimate of the latent variable which is the aggregate value of the indicator.

**Table-3.** Recapitulation of hypothesis testing result.

Influence Between Variable	Original Sample (O)	T Statistics ( $ O/STDEV $ )	P Values		Hypothesis
ENP -> SDGs	0.440	3.631	0.000	***	H1 Accepted
EP -> SDGs	0.182	1.529	0.127	***	H2 Rejected
SP -> SDGs	0.305	3.416	0.001	***	H3 Accepted

Note: \*\*\*significant at 0.05 level.

Hypothesis test results show that environmental performance has a positive and significant effect on SDGs with a coefficient of 0.440. With  $t$  statistic = 3,631 >  $t_{\text{tabel}}$  0.197 and the prob. value 0.000 <  $\alpha$  = 0.05. Hypothesis 1 is accepted. Economic performance does not affect the SDGs. With  $t$  statistic = 0.182 <  $t_{\text{tabel}}$  0.197 and the prob. value 0.127 >  $\alpha$  = 0.05. Hypothesis 2 is rejected. Social performance has a positive and significant effect on

SDGs with a coefficient of 0.305. With  $t$  statistic = 3,416 >  $t_{\text{tabel}}$  0.197 and prob. value 0.000 <  $\alpha$  = 0.05. Hypothesis 3 is accepted.

## 5. DISCUSSION

### 5.1. Environmental Performance and Sustainable Development Goals

The results showed that environmental performance had a positive and significant effect on the achievement of the SDGs. The sample manager of this study assesses that the company has made efforts to pay attention to environmental problems and implement it into their business activities in the form of reducing energy consumption of electricity and water, and efficiency of the volume of raw materials.

The company's ability to create environmental performance is one of the sustainable actions that can reduce global climate change and environmental damage. These efforts have been assessed by the company as an effort to support the goals and objectives of the SDGs, namely to play a role in a better life in the future and ensure that production and consumption patterns do not damage the environment. The results of this study are in line with research by [Varanavicius and Navikaite \(2015\)](#) which considers environmental performance that is friendly and leads to sustainability. The results of this study conclude that the environmental awareness carried out by the company and expressed in the achievement of performance has contributed in supporting the achievement of the SDGs.

### 5.2. Economic Performance and Sustainable Development Goals

The results showed that economic performance had no effect on the SDGs. the economic performance achieved by the company is not considered to support SDGS. The economic performance achieved by the company focuses on increasing the value of the company. The results of this study prove that the economic performance achieved by the company has not been able to support the achievement of the SDGs. Sustainability practices are still considered expensive and difficult to implement even though they are believed to have provided benefits. It is an obstacle and a challenge for the company. This is in line with research by [Dimitrov and Davey \(2011\)](#) who also stated that companies still consider adopting sustainability to be expensive even though it has great benefits for companies for business activities by increasing the value of the company.

### 5.3. Social Performance and Sustainable Development Goals

The results showed that social performance has an effect on the Sustainable Development Goals. Social performance achieved by the company in the form of increased employee satisfaction, increased employee motivation, improved occupational health and safety, improved education and the training has brought benefits to the internal and external environment of the company in the form of an improvement in the life of the surrounding community. The results of the research prove that the social sustainability actions taken by the company directly provide benefits to the company, namely ensuring that the operations of the company are accepted by the community in accordance with the theory of legitimacy and have indirectly contributed to the achievement of the SDGs of improving the quality of life through improved skills and job creation worthy.

## 6. CONCLUSION

The SDGs emphasize the responsibility of the world and businesses towards the environment and climate change, involving all sectors to achieve it. Meanwhile, sustainability performance is a performance based on the environment, social and economy that ensures the sustainability of the company. The results showed that the social and environmental performance that has been achieved by the company was seen as capable of supporting the achievement of the SDGs, but that the economic performance has no impact on the SDGs.

## 7. IMPLICATIONS

The results of this study support the theory of legitimacy, which is important for companies to pay attention to their environmental and social performance in order to gain public recognition that their operational activities conform to existing standards as a form of legitimacy to achieve better economy. The results of this study may also help companies understand that the goals of sustainable development and sustainability performance have theoretical and practical similarities. The difference between the two is in the aspect of their concentration. Business is focused on achieving sustainable performance; the business is environmentally and socially responsible and supports global programs to achieve sustainability goals.

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