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Sustainability Report and Firm Value: an Evidence from Indonesia

Pelaporan Keberlanjutan dan Nilai Pemegang Saham: Sebuah Bukti dari Indonesia

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Abstract - *The reporting of sustainability reports remains to be voluntary in Indonesia. Therefore, there are questions regarding whether the market values the report. This research attempts to answer this question by examining the impact of firms' sustainability reports on their firm value. This research delves further into the topic of how firms' sustainability reports affect the value of the firm. While prior research has been done in advanced countries and countries with high reporting rates, this research analyses the effect of how firms' sustainability reports affect firm value in a developing country with a low reporting rate. To test the hypothesis, this research uses 100 of the biggest companies in Indonesia as the sample and conducts an Ordinary Least Square regression analysis. The results indicate that the market gave a positive value to a sustainability report. This result provides an argument that companies should report their sustainability performance through a sustainability report because this information is valued by the market.*

Key Words: *Firm Value, Reporting, Sustainability, Sustainability Report*

Abstrak – Pelaporan laporan berkelanjutan masih bersifat sukarela di Indonesia. Oleh karena itu, muncul pertanyaan mengenai apakah pasar menghargai laporan tersebut. Penelitian ini mencoba untuk menjawab pertanyaan tersebut dengan mengkaji dampak dari laporan keberlanjutan perusahaan terhadap nilai perusahaan mereka. Penelitian ini menggali lebih dalam tentang topik tentang bagaimana laporan keberlanjutan mempengaruhi nilai perusahaan. Penelitian terdahulu telah dilakukan tentang topik ini, namun dilakukan di negara maju dan pada negara yang memiliki tingkat pelaporan yang tinggi, sementara penelitian ini menganalisis pengaruh bagaimana laporan keberlanjutan perusahaan dapat mempengaruhi nilainya di negara berkembang dengan tingkat pelaporan yang rendah. Untuk menguji hipotesis, penelitian ini menggunakan 100 perusahaan terbesar di Indonesia sebagai sampel dan melakukan analisis regresi *ordinary least square*. Hasilnya menunjukkan bahwa pasar memberikan nilai positif terhadap laporan keberlanjutan. Hasil ini memberikan argumen bahwa perusahaan sebaiknya melaporkan kinerja keberlanjutannya melalui laporan berkelanjutan karena informasi ini dinilai baik oleh pasar.

Kata Kunci: Keberlanjutan, Laporan Keberlanjutan, Nilai Perusahaan, Pelaporan

INTRODUCTION

In the last few decades, environmental issues have come to the forefront of the world and have become one of the most important issues faced by the world. Environmental issues that are currently happening such as global warming, climate change, air pollution, ozone depletion and others that we can experience right now make everyone pay attention to the problems that we are facing today. And as we experience these issues, people are more aware that if no efforts are made to counter them, future generations may not be able to enjoy the world as we are today.

Because of these environmental issues, firms are in the spotlight as an institution that is required to take a part in maintaining the sustainability of this earth's environment (Berthelot, Coulmont, & Serret, 2012). Therefore, stakeholders of firms want them to take action and provide more information regarding the issue of sustainability. To fulfill the requests of its stakeholders, firms do not only give a slight report of their sustainability programs but can also provide more detailed information regarding their performance in the environmental field through a separate sustainability report.

The sustainability report is a report that is issued by a firm or an organization regarding the economic, social, and environmental impacts caused by the daily activities of the firm or the organization itself (GRI, 2019). In recent years, the reporting of sustainability reports has gained traction and have been gradually replacing environmental reports made by firms (Kolk, 2008). Not only has the reporting gained traction through the years, but the performance of firms in the field of sustainability has also been increasing year by year (Hamad, Lai, Shad, Khatib, & Ali, 2023). Through the reporting of a sustainability report, stakeholders can obtain more relevant and comprehensive information about the firm's non-financial performance compared to just the regular annual report.

However, even though a sustainability report gave more detailed information, the reporting of a sustainability report is not uniformly required in every country (KPMG, 2017). This, however, did not prevent firms that operated in countries where sustainability reporting is not mandatory to issue their companies' non-financial performance through a sustainability report. Ethical obligations, pressure from competitors, a positive public relation image, and financial benefits are some of the reasons why firms do report their sustainability performance even though it is not required (Reverte, 2009).

In Indonesia, reporting a sustainability report is still a voluntary matter. A survey made by EY for the year 2016 shows that out of the 100 largest companies listed on the Indonesian Stock Exchange, only 32 companies reported their sustainability performance (Ernst & Young Indonesia, 2017). Meanwhile, as a whole, only 9% of the listed companies reported their sustainability report (OJK, 2017). This shows that there are still a lot of companies in Indonesia that do not report their sustainability report, indicating that they believe that issuing a sustainability report will not provide significant benefits to the company.

In previous research, the factors which influence companies so that they report their sustainability report has been investigated (Brammer & Pavelin, 2006; Stanny & Ely, 2008). In addition, there have also been studies looking at the effect of sustainability reports on firm value in various places in the world such as in Canada (Berthelot, Coulmont, & Serret, 2012; Magness, 2010), Italy (Cardamone, Carnevale, & Giunta, 2012), Europe (Carnevale, Mazzuca, & Venturini, 2012; Carnevale & Mazzuca, 2014), Singapore (Loh, Thomas, & Wang, 2017), and Vietnam (Linh, Hung, & Binh, 2022) with varying results. However, research on the relationship between sustainability reporting and corporate value is still limited in the context of developing countries. In addition, the countries where prior research on this topic was conducted were countries where more than 50 percent of their companies reported their sustainability reports.

Therefore, the purpose of this research is to identify the relationship between sustainability reporting and firm value in Indonesia. Where Indonesia is a developing country and has a situation where among the 100 largest companies, less than 50 percent report their sustainability reports. In addition, with the level of awareness regarding sustainability issues that are still lacking compared to developed countries, it is expected that the results of this study can provide a picture of how sustainability reporting affects the firm value in developing countries.

LITERATURE REVIEW

Signaling Theory

This sustainability report then is expected to send a good signal to stakeholders that the company is performing well in the environmental field. The signaling theory is a theory that states that one party will disclose relevant information to another party. Then, the other party will interpret the information being disclosed and will adjust his/her behavior according to the information provided (Spence, 1973). A disclosure is said to contain information if it can trigger a market reaction, which can be in the form of an increase in stock prices, which means that the disclosure is a positive signal. Vice versa, a negative signal can be observed by the decreasing of stock prices due to the information given.

The signaling process is also a way for companies to reduce information asymmetry between companies and parties outside of the company (Connelly, Certo, Ireland, & Reutzel, 2011). By giving a signal in the form of a sustainability report, a company will provide more complete information to outsiders which will increase the company's transparency and will reduce the uncertainty regarding the prospect of the company in the future. Based on this signaling theory, a company's disclosure of the sustainability report can give a signal of information and can influence investors in their decision-making process. Furthermore, a sustainability report that gives more comprehensive and higher-quality information on the sustainability efforts of the company tends to elicit a positive signal and will result in positive market reactions (Schadewitz & Niskala, 2010; Guidry & Patten, 2010) because it also hints at a positive future performance (Bachoo, Tan, & Wilson, 2013).

Sustainability Report

The sustainability report is a report that is published by a firm or an organization concerning the economic, social, and environmental impacts caused by the daily operations of the firm or the organization itself (GRI, 2019). A sustainability report also presents the values of an organization and its governance, while also demonstrating the relationship between the strategy of the firm towards a sustainable global economy. Therefore, a sustainability report is an important report to communicate the non-financial performance of the firm, in this case, the sustainability performance, to the public.

The reporting of sustainability report usually refers to the standards issued by the Global Reporting Initiative (GRI). GRI is an organization created in 1997 with the aim of creating a global standard regarding the format and content of reports regarding the company's performance in the environmental field (Willis, 2003). GRI issued its first standard in the year 2000. But over time, the GRI standard has undergone various revisions to improve and increase the quality of said standard. The latest standard issued by GRI is the GRI Standards that is updated in 2021.

Hypothesis Development

The publication of sustainability reports can provide more comprehensive information for investors, especially information in the non-financial sector (economic, social, and environmental). Sustainability reports can also reduce the information asymmetry between the company and outsiders and also increase the information transparency of the company. This transparency can reduce the level of uncertainty regarding the future of the company and in turn will reduce the transaction costs for investors (Carnevale & Mazzuca, 2014). In addition, sustainability reports will also increase the credibility of a company which in turn will increase the reputation of the company. Therefore, the information obtained from the issuance of a sustainability report has implications for investors' perceptions of the company and will affect its value. The assumption in this study is that by reporting their sustainability reports, the level of corporate disclosure will increase and will reduce the information asymmetry, which in turn will ultimately increase the value of the company. Therefore, the hypothesis of this research is:

H1: Sustainability report disclosure has a positive relationship with the value of a company.

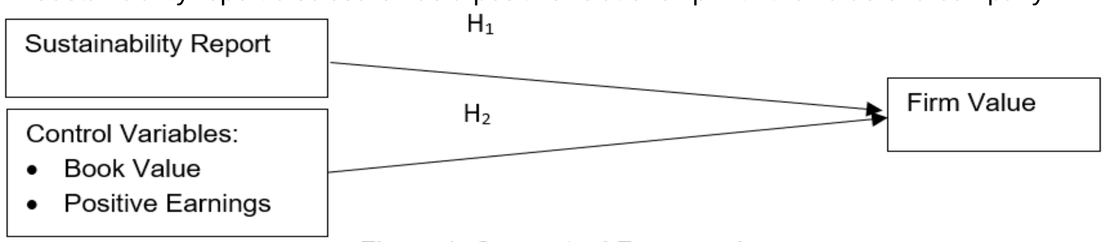

Figure 1. Conceptual Framework

RESEARCH METHOD

Population and Sample

The population of this study is firms located in Indonesia. However, due to the large population size, samples are taken from the population to be analysed (Etikan, Musa, & Alkassim, 2016). The sample of this study is the 100 largest companies listed on the Indonesia Stock Exchange. The 100 largest companies are used as the sample because large companies are more likely to report their sustainability reports, while the reporting tendencies of small companies are way lower (KPMG, 2008). Meanwhile, the data used in this research were obtained from sources such as the companies' websites, the GRI database, and the Thomson Reuters Eikon database. This research uses secondary data.

Research Variables

The variables used in this research consist of three types of variables which is the independent variable, the dependent variable, and the control variables that will be elaborated as follow. The independent variable is the variable that influences or causes the occurrence of the dependent variable or a variable whose variation is statistically related to variation in the dependent variable (Hilbert, 2020). In this study, the independent variable is the reporting of a sustainability report by the company (1 if the company issues its sustainability report; 0 if the company did not issue their sustainability report). The data for sustainability reporting was taken from the sustainability disclosure database owned by GRI and the company's website page.

The dependent variable is the variable whose value is affected or which is the result of the independent variable. The dependent variable in this study is the firm value which is measured by the natural logarithm of the company's market capitalization. The market capitalization data were obtained by multiplying the share price by the number of shares outstanding. This data was taken four months after the fiscal year-end. The data is taken at this time to ensure that the market has fully reacted to the information provided by the company through the sustainability report.

Control variables are variables that are controlled so that the influence of the independent variable on the dependent variable cannot be influenced by external factors that are not examined. The control variables in this study are the natural logarithm of the company's book value and positive earnings sign (1 if the company has positive earnings; 0 if the company has negative earnings). The book value was obtained from the subtraction of the company's total assets and total debt. The control variables used in this research are adopted from the ohlson model (Ohlson, 1995) and a prior study which considers that the company's book value (Laela & Prayitmi, 2022) and positive earnings have a positive influence on the firm value as proxied by market capitalization (Berthelot, Coulmont, & Serret, 2012).

Research Model

To test the hypothesis, a regression analysis using the ordinary least square (OLS) method was used. And the following model was used to test the hypothesis:

$$\mathrm{MC}_{i,t+4} = \alpha + \beta_1 \mathrm{SR}_{i,t} + \beta_2 \mathrm{BVE}_{i,t} + \beta_3 \mathrm{P}_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where:

MC = Firm value → Market capitalisation, four months after the fiscal year-end
SR = Sustainability report (Yes: 1; No: 0)
BVE = Book value
P = Earnings sign (Positive: 1; Negative: 0)

Prior to conducting the statistic testing, the classical assumption test such as the normality test, the heteroscedasticity test, and the multicollinearity test were carried out. And the result shows that the data used in this research has no classical assumption problems.

FINDINGS AND DISCUSSION

Descriptive Statistics

The result of the descriptive statistic is presented in Table 1. The dependent variable, as measured by the market capitalisation has a mean of 30.57 and a standard deviation of 1.34. With a minimum value of 27.77 and a maximum value of 34.04, this data shows proof that the samples taken are large companies with a high market capitalisation. Meanwhile, the independent variable, as measured by the reporting of sustainability reports has a minimum value of 0 and a maximum value of 1. This shows that there are companies that reported their sustainability reports, while some others did not do so. A mean of 0.39 shows that among the 100 companies, 39 companies issue their sustainability reports. This shows an improvement from the previous year regarding the number of firms that publish their sustainability reports. This may imply that firms are finding that publishing their sustainability report is beneficial for them. Meanwhile, the standard deviation value is 0.49, which shows the high variability in the decision of reporting among the top 100 companies in Indonesia.

Table 1. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
MC	100	30.57392	1.354257	27.76616	34.03679
SR	100	0.39	0.4902071	0	1
BVE	100	31.12676	1.080145	29.28274	34.57272
P	100	0.9	0.3015113	0	1

Source: Processed data

The control variable represented by the book value has a mean of 31.13, a standard deviation of 1.080145, a minimum value of 29.28, and a maximum value of 34.57. Because the standard deviation is lower than the mean value, it shows that the companies are similar in size. Meanwhile, the other control variable, earnings sign, has an average value of 0.9, a standard deviation of 0.30, a minimum value of 0, and a maximum value of 1. This shows that most of the companies in the sample, which is 90 percent of the sample, have positive earnings during the year.

Hypothesis Testing

The result of the hypothesis testing from this study is presented in Table 2. As can be seen in Table 2, the main variable being tested, namely the publication of a sustainability report (SR) has a positive and significant effect on firm value (p-value of 0.070*). These results are in accordance with the research assumption which states that by reporting a sustainability report, a company will provide additional information that in turn will reduce information asymmetry. The market values this and will give an added value to the company as shown by the increase in the firm value. Apart from that, it can also be assumed that by reporting a sustainability report, the company gives a positive signal about the state of the company that is positively responded to by the market. These results also support the results of prior research by Berthelot, Coulmont, & Serret (2012), Carnavale & Mazzuca (2014), and Loh, Thomas, & Wang (2017). This means that whether the country is an advanced one or has a high reporting rate as has been found in previous research or a developing one and has a low reporting rate as analyzed in this research, there is no difference in the effect of publishing a sustainability report on firm value. Both has shown that wherever it is, extra information given by the firm, in this case a sustainability report, is valued positively by the market.

Table 2. Statistic Result

Variable	Predicted Sign	Coefficients	Sig.
(Constant)		12.2641	0.001***
SR	+	0.4519	0.070*
BVE		0.5629	0.000***
P		0.6818	0.077*
F-Value		16.04	0.000***
Adjusted R^2		0.3131	
Dependent Variable	FV_{t+4}		

Source: Processed data

There are several explanations for why simply just reporting a sustainability report, regardless of the contents has a positive effect on the firm value. First, it is possible that investors see the publishing of a sustainability report as a sign that the firm is active and involved in the sustainability field. And since in this day and age customers are more aware of sustainability issues, products from firms that are involved in the sustainability fields are more likely to be chosen when customers want to purchase a product. This will in turn increase the number of sales within the firm. Involvement in the sustainability fields can also lead to lower expenses through a better production system. The increase in sales and decrease in expenses will result in a higher income and will have a positive effect on the firm value.

The second explanation is that rational investors will assume that if a firm has favorable information, the firm will release that information. On the contrary, firms that withhold information can result in investors assuming the worst of the situation and will have a negative effect on the firm's market value. Therefore, the reporting of sustainability report will be seen as the company doing something positive, that will in turn will have a positive effect on the firm value.

The result of this research also aligns with the signaling theory where information is given, in this case, the sustainability report, which will be seen as a signal to the market participants. And in turn, the participants will react accordingly to the signal. This research shows that a sustainability report is a positive signal and the market will react positively to that signal. This research also fills the research gap by giving results from Indonesia, a developing country with a low number of firms that disclose their sustainability report, an area that has not been comprehensively studied before.

Furthermore, the test results of the control variables such as the company's book value (BVE) and positive earnings (P) also show a positive and significant effect on firm value in accordance with the research assumptions. The two control variables' results are also similar to prior research done on the subject. Overall, the three variables tested (SR, BVE, P) significantly affect firm value (p-value of 0.000***) and can explain 31.31% of the variance of the firm value as seen from the adjusted R^2 value.

SUMMARY

This study aims to observe whether the market provides added value to the disclosure of a sustainability report that is separate from the annual report. The results of this study confirm that the market gives a positive value to the disclosure of sustainability reports. The results of this study provide support for institutions that set the standards for sustainability reporting such as the GRI, the International Integrated Reporting Council (IIRC), and others because the results of this study show that the market values the disclosure of a sustainability report. The result of this research also provides an argument that can encourage companies to disclose their sustainability report even though it is not mandatory to do so. Furthermore, the reporting of sustainability reports will encourage firms to not simply focus on financial performance but also on taking care of their stakeholders through excellent sustainability performance. Meanwhile, for shareholders, the result of this study proves that sustainability reports contain relevant information that is useful in determining the appropriate value of the firm.

This research is however limited by the data used where it only uses large companies as the sample and a limited time of observation. Future research can expand the data to include smaller companies and increase the observation time. Another interesting avenue for further research is to find out why there are still a large number of companies in Indonesia that still choose not to disclose their sustainability reports even though the reports give a positive added value to the value of the firm.

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