Sustainability Reports and Its Impact on Firm Value in Non-Financial Companies: Evidence from Indonesia

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Abstract: The value relevance of accounting information, including sustainability reports, is attractive to companies because of its effect on the competitiveness of companies. Analyzing the potential factors considered to have an impact on firm value can provide management with insight on how to increase firm value. The purpose of this study was to obtain empirical evidence of the effect of sustainability reports, profitability, and liquidity on firm value. This study investigates the relevance of sustainability report disclosure in non-financial companies listed on the Indonesia Stock Exchange for the period 2016 – 2018. Data were collected from 19 non-financial companies that met the predetermined sample criteria. The results of this study empirically prove that the sustainability report as measured by SRDI and liquidity as measured by the current ratio (CR) does not affect firm value. Meanwhile, profitability, as measured by ROA affects firm value.

Keywords: sustainability reporting, profitability, liquidity, firm value

1. Introduction

Firm value is a condition that has been achieved by the company as a form of public trust in the company since the company was founded until now. The firm value is very important because the higher firm value will be followed by higher shareholder prosperity. The higher the stock price, the higher the value of the company. The high value of the company will increase the level of prosperity of shareholders. (Lumoly, & Murni, 2018). Ermawati (2010) said that increasing firm value can attract investors to invest their capital.

A sustainability report is a form of the report carried out by a company to disclose or communicate to all stakeholders regarding the performance of environmental, social, and good governance in an accountable manner. Disclosure of Sustainability Reporting in Indonesia until 2018 is still voluntary. Although it is still voluntary, almost 9% of companies listed on the Jakarta Stock Exchange (IDX) have published sustainability reports. The current issuance of sustainability reports in Indonesia is mostly based on the disclosure standards contained in the Global Reporting Index (GRI).

Previous studies have been conducted to analyze the effect of sustainability reports, profitability, and liquidity on firm value. However, the results of previous studies have not been consistent. Kurniawan et al. (2018) and Latifah (2017) empirically prove that the sustainability report has an effect on firm value, while Astuti & Juwenah (2017) state otherwise that the sustainability report has no effect on firm value. Riny (2018) and Chasanah (2018) in their research state that profitability affects firm value, while Hirdinis (2019) states that profitability does not affect firm value. Meanwhile, regarding liquidity, Chasanah (2018) and Yanti & Darmayanti(2019) prove empirically that liquidity affects firm value, however, Riny (2018) states that liquidity does not affect firm value.

Research on Sustainability Reports (SR) in other countries has also been carried out. Kuzey (2016) examines SR in trading companies listed on the Istanbul Turkey stock exchange and finds that SR has value relevance that affects the value of the company. Nguyen (2020) with a sample of companies in Germany proves empirically that SR has a negative relationship with firm value. According to Lako (2019: 129), theoretically, the application of SR is believed to increase stakeholders’ appreciation of the accountability and transparency of company information which has positive implications for their decisions. This will also improve business performance, financial performance, and company
Considering the importance of sustainability reports (SR) as a form of accountability and transparency of company information and there are still inconsistencies in the results of previous studies, this study was conducted to obtain empirical evidence of the effect of sustainability reports, profitability, and liquidity on firm value.

2. Literature Review and Hypothesis Development

The main theories that underlie this research are stakeholder theory and legitimacy theory. Freeman (1984) in legitimacy theory states that the company is not an entity that only operates for its interests but must provide benefits to its stakeholders. So that the existence and survival of a company are very dependent on the support of stakeholders. Social and environmental disclosures in sustainability reports are considered as part of the effort to gain such support. (Ghozali, 2020:136). Meanwhile, the legitimacy theory explains that the company is required to make efforts to ensure that the company has carried out its operational activities based on the norms or rules contained in the community environment so that the company's status and all the company's operational activities can be said to be legitimate and accepted by parties outside the company (Kurniawan et al., 2018). Sustainability reporting is one of the company's efforts to build a positive image that the company cares about environmental and social problems. By doing this, the company will gain legitimacy from the stakeholders which in the end is expected to increase the value of the company.

Firm value is an investor's perception of the company's level of success in managing its resources, reflected in the company's stock price. The higher the stock price, the higher the value of the company (Riny, 2018). Company value is a certain condition that has been achieved by the company as a form of public trust in the company since the company was founded until now. The value of the company is very important because the higher the value of the company will be followed by the high prosperity of shareholders.

Through the sustainability report, stakeholders are interested in understanding how the company's approach and performance are sustainable in various aspects, especially economic, environmental, and social aspects including the potential to create corporate value. Disclosure of environmental, social, and economic performance in annual reports or separate reports is to reflect the level of accountability, responsibility, and transparency of the company to investors and other stakeholders (Sri Wahjuni Latifah, 2017). According to Astuti & Juwenah (2017), the disclosure of sustainability reports has a positive influence on firm value.

H1: Sustainability reports affect the firm value

Profitability is the company's ability to generate profits at the level of sales, assets, and share capital. Profitability ratio Return On Total Assets (ROA) shows the company's ability to generate net income based on the level of assets. A high ratio indicates the efficiency of asset management, which means management efficiency (Hanafi & Halim, 2016). If the company can use investor funds effectively, the company will be more transparent to stakeholders in presenting the required information. According to research conducted by Tahu & Susilo (2017) profitability can affect firm value.

H2: Profitability affects the firm value

Liquidity is the company's ability to meet short-term obligations (debt). The company's inability to pay its obligations, especially short-term debt (which is due) will have an impact on a crisis of confidence from several parties (Kasmir, 2017:145). Therefore, if the company can fulfill its obligations, the firm value will increase. According to research by Yanti & Darmayanti (2019), liquidity can affect firm value.

H3: Liquidity affects firm value

3. Research Methods

Research design

This research was conducted in 2019 using a causal research design to examine the effect of sustainability reports, profitability, and liquidity on firm value. The type of data collected is secondary data sourced from annual reports and sustainability reports from each selected non-financial company based on predetermined criteria.
Samples

The sample in this study consisted of companies that publish sustainability reports and are listed on the Indonesia Stock Exchange for the period 2016 – 2018.

Table 1. Research Sample

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial companies listed on the stock exchange from 2016 to 2018</td>
<td>292</td>
</tr>
<tr>
<td>Companies that inconsistently published sustainability report from 2016 to 2018</td>
<td>(273)</td>
</tr>
<tr>
<td>Number of sample companies</td>
<td>19</td>
</tr>
<tr>
<td>Research Year</td>
<td>3</td>
</tr>
<tr>
<td>Number of samples</td>
<td>57</td>
</tr>
</tbody>
</table>

Variables Operationalization

The dependent variable, firm value is measured using the ratio of price to book value. Firm value is not only reflected in the company's stock price, to measure the high value of the company can be done in various ways, and one of the measuring tools that can be used is a price to book value ratio Hermuningsih & Wardani (2009) stated that the price to book value or PBV describes how much the market appreciates the book value of a company's shares. The higher this ratio means that the market believes in the company’s opportunities.

The independent variable SR was measured as Sustainability Report Disclosure Index (SRDI). SRDI assesses economic, environmental, and social responsibilities according to the criteria according to the Global Initiative Reporting (GRI) Standard. The technique used to input data is content analysis. This technique is a text coding that has characteristics that will be written in various groups. If the company discloses an item it will be given a value of 1, whereas if the company does not disclose an item it will be given a value of 0. (Kurniawan et al., 2018).

$$SRDI = \frac{\text{number of items disclosed}}{\text{number of items to disclose}}$$

Profitability in this research is measured as Return On Assets (ROA). This ratio measures the company's ability to generate profits by using the total assets owned by the company after adjusting for the costs to fund these assets (Hanafi & Halim, 2016).

Liquidity in this study is measured as the current ratio. According to Hanafi & Halim (2016) the current ratio is calculated by dividing current assets by current liabilities. The current ratio shows the amount of cash owed by the company plus assets that can be turned into cash within one year, relative to the number of debts that are due in the near term (no more than one year).

Data Analysis Method

The methods of analysis data used include descriptive analysis, a classical assumption test and hypothesis testing using multiple linear regression equations (Brooks, 2014; Gujarati, 2011). Regression analysis is mostly about dependent variables with one or more independent variables, with the purpose of estimating and/or predicting the average population or the mean value of the dependent variable based on the known independent value. Multiple linear regression equations in this research utilise the following model:

$$PBV = \alpha + \beta_1 \text{SRDI} + \beta_2 \text{ROA} + \beta_3 \text{CR} + e$$
4. Results

Descriptive Statistics

The results of descriptive statistics are shown in the table 2

Table 2. Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBV</td>
<td>57</td>
<td>.27</td>
<td>16.49</td>
<td>1.9978</td>
<td>2.81702</td>
</tr>
<tr>
<td>SRDI</td>
<td>57</td>
<td>.05</td>
<td>.66</td>
<td>.2792</td>
<td>.15341</td>
</tr>
<tr>
<td>ROA</td>
<td>57</td>
<td>-.11</td>
<td>.47</td>
<td>.0698</td>
<td>.10009</td>
</tr>
<tr>
<td>CR</td>
<td>57</td>
<td>.38</td>
<td>8.01</td>
<td>1.8692</td>
<td>1.32049</td>
</tr>
</tbody>
</table>

The average PBV (company value) is 1.9978, this indicates that the average market appreciation of the sample companies' stock prices is higher than the book value of their equity. Disclosure of sustainability reports has an average value of 0.2792 or 27.92%, meaning that from a total of 77 GRI disclosure items, the sample companies on average only disclose 28 items. From the average ROA value of 0.0698, it can be said that during the research period the average effectiveness of the company in managing its assets to generate profits is 6.98%. The liquidity ratio as measured by the current ratio has an average value of 1.8692 showing the average ability of the company's assets to cover its short-term liabilities of 1.87 times.

Classic Assumption Test

The normality test based on table 3, showed that the value of Asymp. Sig (2-tailed) of 0.094 is greater than 0.05, it can be concluded that the data is normally distributed.

Table 3. One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Parametersa,b</td>
<td>.9802</td>
<td>.46971</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
<td>.108</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
<td>.108</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
<td>-.063</td>
</tr>
<tr>
<td>Test Statistic</td>
<td>.108</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.094c</td>
<td></td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.

The result of multicollinearity test shows that the value of Variance Inflation Factor (VIF) of all the independent variables has a VIF value of less than 10. So it can be concluded that there is no multicollinearity between the independent variables in the regression model.
Table 4. Multicollinearity Test

Co linearity Statistics

<table>
<thead>
<tr>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.903</td>
<td>1.107</td>
</tr>
<tr>
<td>0.906</td>
<td>1.104</td>
</tr>
<tr>
<td>0.848</td>
<td>1.18</td>
</tr>
</tbody>
</table>

The autocorrelation test results show that the Durbin-Watson (DW) value of 1.965 therefore it can be concluded that there is no autocorrelation symptom.

Table 5. Autocorrelation Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.965</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CR, ROA, SRDI
b. Dependent Variable: PBV

Based on the heteroscedasticity test, the results of each independent variable are above the 0.05 or 5% confidence level, so it can be concluded that the regression model of this study does not have heteroscedasticity problems.

Goodness of Fit Testing

The accuracy of the regression function of this study was measured through 3 tests consisting of: coefficient of determination, F statistic test, and T statistical test.

Coefficient of determination. Based on table 5, it can be seen that the adjusted R Square is 0.615, which means that 61.5% of the firm value is influenced by sustainability reports, profitability, and liquidity, while the remaining 38.5% is influenced by other factors not examined in this study.

Table 6. Model Summary

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>a. Predictors: (Constant), CR, ROA, SRDI</td>
</tr>
</tbody>
</table>

F statistic test. Simultaneous significance test results show (table 7) an F value of 30.859 and a significance value of 0.000 thus it can be concluded that the regression model in this study is feasible to use in predicting firm value or it can be said that sustainability reports, profitability, and liquidity simultaneously affect firm value.
Table 7. F Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>282.605</td>
<td>3</td>
<td>94.202</td>
<td>30.859</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>161.789</td>
<td>53</td>
<td>3.053</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>444.394</td>
<td>56</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: PBV
b. Predictors: (Constant), CR, ROA, SRDI

T statistical test. The results of the t-test (table 8) for sustainability reports (SRDI) have a significance value of 0.086, which is greater than 0.05. It can be concluded that the disclosure of sustainability reports has no significant effect on firm value so that hypothesis 1 (H1) is not accepted. Profitability (ROA) shows a significance value of 0.000, which is smaller than 0.05, meaning that profitability has a significant effect on firm value, so it can be concluded that hypothesis 2 (H2) is accepted. The results of the t-test for liquidity (CR) have a significance value of 0.717, which is greater than 0.05, thus it can be concluded that liquidity has no significant effect on firm value, so hypothesis 3 (H3) is not accepted. The regression equation is formulated as follows:

\[ PBV = 1,340 - 2,805 \text{SRDI} + 22,511 \text{ROA} - 0.070 \text{CR} \]

Table 8. Result of T-test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.340</td>
<td>.718</td>
<td></td>
<td>.068</td>
</tr>
<tr>
<td>SRDI</td>
<td>-2.805</td>
<td>1.601</td>
<td>-.153</td>
<td>-.1752</td>
</tr>
<tr>
<td>ROA</td>
<td>22.511</td>
<td>2.451</td>
<td>.800</td>
<td>9.186</td>
</tr>
<tr>
<td>CR</td>
<td>-.070</td>
<td>.192</td>
<td>-.033</td>
<td>-.364</td>
</tr>
</tbody>
</table>

a. Dependent Variable: PBV

5. Discussion

The results of this study empirically prove that the sustainability report (SRDI) does not affect firm value (Price book value). The results of this study are in line with previous research conducted by Sejati & Prastiwi (2015) which stated that the reason for the insignificant effect of the disclosure of sustainability reports on firm value may be that investors are more interested in buying shares of companies that generate expected profits and do not care about the disclosure of sustainability reports. The insignificant effect of sustainability reports in this study could be because the sample companies have a low average sustainability report disclosure of only 27.9%. This study is not in line with (Latifah & Luhur, 2017) which states that disclosure affects firm value. The value of the company will be guaranteed to grow sustainably if the company pays attention to the economic, social, and environmental dimensions because sustainability is a balance between economic and environmental interests.

The results of hypothesis testing prove empirically that profitability (ROA) affects firm value (price-to-book value). The results of this study are in line with previous research conducted by Riny (2018) and Chasanah (2018) which stated that basically profitability shows the company's ability to earn net profit from net sales and can also measure the company's management ability in carrying out its operational activities by minimizing the company's expenses and maximize company profits. And this is what can increase the value of the company so that investors are also more interested in investing in the company. This research is not in line with (Sondakh, 2019) which states that the absence of ROA influence on firm value can be caused by management performance that is not able to manage assets effectively, causing net income to be small while the assets owned by the company are very large. In addition, this can happen because the profits owned by the company cannot reflect the size of the company.
This study proves empirically that liquidity (CR) does not affect firm value (Price book value). The results of this study are in line with previous research conducted by Nurhayati (2013) which states that the current ratio does not have a significant effect on firm value and it can be said that an investor in investing does not pay attention to the current ratio factor owned by the company. Because this ratio only shows the company’s ability to cover current liabilities with the company’s current assets. This research is not in line with Umaiyah & Salim. M. Noor, (2018) states that a company that has a good level of liquidity means it has a small level of risk because the company can fulfill its obligations well, lots of funds are available for the company to pay dividends, finance its operations, and investments. Therefore, when investors see a good level of liquidity, it will give a positive signal to the company. Thus, high liquidity means that the stock is in great demand by investors and it will have an impact on increasing the value of the company.

This study has limitations related to the measurement of the sustainability report variable which is measured using the SRDI without calculating the depth of disclosure from the sustainability report. Suggestions for further researchers are as follows:

1. Future research is expected to use other indicators or measurements that better reflect the extent of disclosure of sustainability reports.

2. Further research can conduct broad comparisons of the disclosure of sustainability reports in various sectors.

6. Conclusions

Based on the analysis and testing of the effect of sustainability reports, profitability, liquidity on firm value, it can be concluded as follows:

1. Sustainability report has no significant effect on firm value. This shows that the disclosure of the Sustainability Report is not able to play a role in an increase in the company's performance.

2. Profitability has a significant effect on firm value. This shows that the level of profitability can increase or decrease the value of the company. The higher the profitability value, the higher the profit that makes investors high interest to invest. The more investors who are interested in investing, the demand for shares will increase so that it can cause the company's stock price to rise which in turn will increase the value of the company.

3. Liquidity has no significant effect on firm value.

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References


