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THE EFFECT OF *SUSTAINABILITY REPORT* DISCLOSURE ON COMPANY VALUE OF COMPANIES IN THE INDONESIA STOCK EXCHANGE

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ABSTRACT

Sustainability report disclosures consist of economic category, environmental category, and social category. This study aims to examine the influence of each category in disclosure of sustainability reports on firm value. This research uses quantitative methods. The type of data used is secondary data obtained from all companies listed on the Indonesia Stock Exchange for the 2017-2018 period. There are 30 sample companies that were produced from the purposive sampling method. The analysis technique used is Partial Least Square (PLS) with the help of SmartPLS 3.0 software. The results of this study conclude that only the economic category of sustainability report disclosures affected the influence on firm value in Indonesia. While the environmental category and social category in the disclosure of sustainability report have not influence on firm value,

Introduction

Destinations include the establishment of the company to achieve maximum benefit in accordance with the expected (Wijaya & Sedana, 2015). Most large companies stand aims to improve the prosperity of our shareholders through increased value of the company. Firm value is often associated with stock prices because the relationship between the two is directly proportional. When the value of the company rises, then the price of the stock will go up anyway. So also on the contrary, when the value of the company down, then the price of the stock will go down anyway. The better the value of the company, the more valuable the company will be by investors, because an increase in the value of the company will provide great prosperity for the owner of the company (Lating, 2019).

Companies in business can not be separated from the community and the surrounding environment, so will arise the relationship of lead forth between the community and the

company. By therefore, the company requires a response that is both from the public through what that done to the society and environment mampui affect the value of the company. When a company seeks to increase the value of the company by way of maximizing the performance of managerial, indirectly company provides unfavorable impact on the surrounding environment as an example the case of environmental pollution resulting in a decline in stock prices, namely oil palm plantations, the stock price dragged into the red zone because 45 % of the expansion of palm oil production leads to the destruction of forests, wetlands and the resulting release of greenhouse gases (Simamora, 2019). If the company is only looking for profit without thinking about the impact given to the surrounding environment, it will cause a negative response from the community which affects the company's image.

The value of the company will secure sustainable growth (*sustainable*) if the company pay attention to the economic, social, and environmental, for a sustainable balance between the interests of economy, environment and society (Maryana & Ridhawati, 2013). Currently, investors are not careless in making investments, they consider various information so that the disclosure of *sustainability reports* can make shareholders interested in increasing company value related to social and environmental issues (Fatchan & Trisnawati, 2018). This research is in accordance with the stakeholder theory, where the company has an obligation to provide information related to the company's condition through reports published by the company to stakeholders (Ghozali and Chariri 2014:439).

The sustainability report is a balance between the three known as the *triple bottom-line* concept known as the 3P concept, namely, *profit, people, and planet*. The concept is a reflection of the term that is known to *Sustain Ability*. *Sustain Ability* has a meaning of its own for the company that is the ability of the company to survive life as long as possible, or the so-called *Long-Life Company*.

According to Gunawan and Mayangsari (2015), the *triple bottom-line* concept is based on the concept of *sustainable development*. Where the concept of *sustainable development* is the concept of sustainable development to meet the needs of the time this without compromising the ability of generations that will come in meeting the needs of life (Ajmal *et al.*, 2018). *The Sustainability Report* is prepared with a reference, namely the *Global Reporting Initiative (GRI)*. GRI states that a *sustainability report* is a report published by a company or organization about the impact of three aspects, namely economic, environmental, and social caused by the company's activities.

The economy category in the disclosure of the sustainability report provides information about the impact of the company's activities on economic conditions, the existence of transparency in this disclosure can increase *stakeholder* trust in the company and the company's image.

Environmental disclosure is one of the factors that can affect the value of the company, because the disclosure of environmental categories can provide information to *stakeholders* of business activities that affect the environment (Kusuma & Dewi, 2019). This shows that by continuing to care about the environment in the company's activities and disclosure of environmental categories in the *sustainability report* will have an impact on improving the company's image in the eyes of investors.

Sustainability report category of social embodies the company to carry out the activities that correspond to the rules or norms that apply (Rachelle *et al.*, 2016), stuff it aims to gain recognition on the activities of companies from outside.

Recognition from the public can improve the company's image in the eyes of investors, so investors will be more interested in investing in company shares. Companies that have disclosed sustainability reports show commitment to existing environmental and

social issues, because in legitimacy theory, corporate social responsibility is not only to stakeholders but to the surrounding environment (Sawitri & Setiawan, 2017). But in fact, the disclosure of sustainability reports in Indonesia still be voluntary (voluntary). According to data compiled by the Financial Services Authority (OJK) in 2017, only 9% of companies have been listed on the Indonesia Stock Exchange and disclosed sustainability reports (ojk.co.id.2017).

Guidry and Patten (2010) found no significant market reaction to the announcement of the sustainability report, but a company with a good financial report shows that the market reaction is much more positive than the companies that issue financial statements that are less good. PT. Wijaya Karya has regularly disclosed sustainability reports but the company's share price has decreased by 6.6% (Rahmayanti, 2016), so that the value of the company has also decreased. The contribution of this study is to analyze the relationship between *sustainability reports* and firm value because the disclosure of *sustainability reports* can improve or protect the company's *image* and can build relationships between companies and external parties in the hope of increasing company value (Lating, 2019).

Several studies have been conducted to determine the effect of *sustainability report* disclosure on firm value, but previous studies have given different results. Kuzey & Uyar (2016) conducted research on companies listed on the Istanbul Stock Exchange in Turkey and found that the disclosure of *sustainability reports* has an effect on firm value. Meanwhile, research by Ramadhani (2016) and Gunawan & Mayangsari (2015) concluded that the disclosure of *sustainability reports* has no effect on firm value.

Literature Review

Stakeholder Theory

Stakeholder theory states that companies must be responsible to parties who have an interest in the company in the sustainability of a company, which is very dependent on the company's ability to balance various stakeholder interests. Stakeholder theory relates to corporate social responsibility because the company is not only limited to maximizing profits and share interests, but also pays attention to the surrounding environment such as the community, customers and suppliers who are part of the company's operations (Paramita, 2013).

The company strives to disclose reliable and relevant information about the company's activities in order to seek *stakeholder* support. Companies must maintain good relationships with *stakeholders*, one of the company's strategies is to disclose *sustainability reports* which include economic, social and environmental aspects (Simbolon, 2016).

Legitimacy Theory

Legitimacy theory states that companies want to get legitimacy or recognition from the community in carrying out company activities that do not violate applicable rules and norms. The community hopes that the company does not only pay attention to good profits but also cares about the impacts that occur due to the company's operational activities (Sulistiyowati, 2018). Companies can disclose information in the form of a *sustainability report*, because there are with this disclosure, *stakeholders* increasingly believe that the company has explained how the social and environmental impacts are caused.

Firm Value

The value of the company is the value of the market that can provide prosperity holders of shares to the maximum when the stock price increases (Sudana, 2015: 8-9). High company

value is the company's desire because it reflects prosperity for shareholders (Mayogi and Fidiana, 2016: 3).

According to Hadi (2011:112-119), *stakeholders* have a role in determining the value of the company, so companies need to create closeness with *stakeholders* such as investors, consumers, government, *suppliers*, community, environment, labor and so on for the purpose of building company value. The strategy of building *stakeholder*-based company value means building company value while still paying attention to *stakeholder* interests in achieving company goals. This means that companies can carry out *sustainability reports* as one of the pillars of the company's sustainability.

Sustainability Report

Sustainability report or sustainability report is a report made by the company to measure, disclose and the company's efforts to become a company that is responsible to all *stakeholders*. According to (Elkington, 1997), a *sustainability report* is a report that not only contains information on financial performance but also contains non-financial information such as information on social and environmental activities aimed at making the company grow sustainably. *The sustainability report is guided by the Global Reporting Initiative (GRI)*.

The implementation of the *sustainability report* disclosure is supported by Undang-Undang Number 40 of 2007 concerning Limited Liability Companies article 74 and Government Regulation Number 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability companies, which explain that companies whose business activities are related to natural resources are required to carry out their responsibilities social and environmental and PJOK no. 51 dated 21 July 2017.

Framework

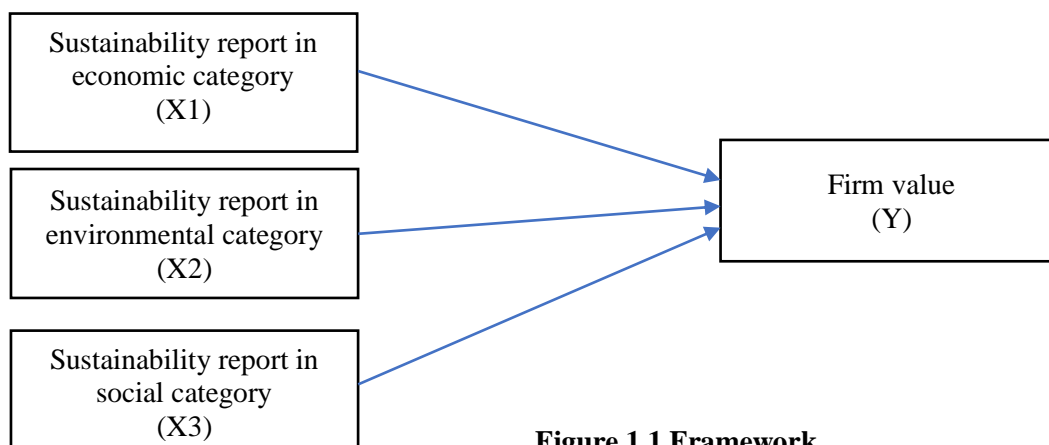


Figure 1.1 Framework

Hypothesis

H 1 : Disclosure of the *Sustainability Report* in the economic category has an effect on firm value.

H 2 : Disclosure of the *Sustainability Report* in the environmental category has an effect on firm value .

H 3 : Disclosure of the *Sustainability Report* in the social category has an effect on firm value.

Research Methodology

Types of Research

This research is a quantitative research.

Population and Research Sample

The population used in this study are companies listed on the Indonesia Stock Exchange for the period 2017-2018 and which have disclosed a sustainability report. The method of selecting samples in the study is that the method of purposive sampling. From the sampling results, 30 companies were selected as samples.

Data Collection Techniques, Types and Sources of Data

The data collection technique used in this research is the documentation method, namely by collecting and analyzing reports that have been published by selected companies. Type of data that is used in research this is the data of secondary that is in the form of *sustainability report* based on the GRI-Standards and *the annual report* for the period 2017-2018. *The annual report* is obtained through the Indonesia Stock Exchange website (www.idx.co.id) and the website of each company, while the *sustainability report* is obtained through the website of each company .

Hypothesis testing

Hypothesis testing in this study was carried out by looking at the value of T-statistics and P-value with the basis of the decision as follows:

1. If the T-statistics value is more than 1.96 or the P-value is less than the specified significance level, the hypothesis is declared accepted.
2. If the T-statistics value is less than 1.96 or the P-value is more than the specified significance level, the hypothesis is declared rejected.

Research result

Analysis of the Measurement Model (*Outer Model*)

This study did not test *Composite Reliability*, *Average Variance Extracted* (AVE) , and Cronbach Alpha, because this researcher did not use questionnaire data in collecting the data.

Convergent Validity Test

Table 1.1
Convergent Validity Test Results

	SR Economy Category	SR Environmental Category	SR Social Category	Firm value
X1	1,000			
X2		1,000		
X3			1,000	
Y				1,000

Based on the results of the *convergent validity* test, each research variable has an *outer loading* greater than 0.7 so that all variables are declared eligible or valid for research use and can be carried out for further analysis.

Discriminant Validity Test

Table 1.2
Discriminant Validity Test Results

	SR Economy Category	SR Environmental Category	SR Social Category	The value of the company
X1	1,000	0.166	0.525	- 0.189
X2	0.166	1,000	0.516	- 0.139
X3	0.525	0.516	1,000	- 0.114
Y	- 0.189	-0.139	- 0.114	1,000

Based on the results of the overall *discriminant validity* test, it is known that each *cross loading* value of each variable is greater than the value of the other constructs in question. So that the test is in the overall value of *cross loading* adequate to proceed further testing.

Structural Model Analysis (Inner Model)

Based on the data that has been done pegolahan obtained value determinant coefficient (R^2) as follows:

Table 1.3 R^2 value	
	R Square
The value of the company	0.050

In Table 1.3 it can be seen that the value of the determinant coefficient (R^2) of 0.050 which means the variability latent constructs capable Corporate Values described by the disclosure *Sustainability Report* category Economics, disclosure *Sustainability Report* Category Environmental, disclosure *Sustainability Report* Category Social represents only 5%.

Hypothesis testing

Table 1.4 Hypothesis Test Results

	<i>Original Sample (O)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>	Information
SR Economic Category -> Firm Value	-0.198	0.087	2.269	0.024	Accepted
SR Environmental Category > Firm value	-0.138	0.087	1.585	0.113	Rejected
SR Social Category -> firm Value	0.062	0.124	0.497	0.620	Rejected

The results of hypothesis testing in table 1.4 show that the results of the study on the disclosure of the Economic Category *Sustainability Report* on Firm Value resulted in a *T-statistic value* of 2.269 > 1.960 with a *P-value* of 0.024 < 0.050. This shows that H₁

is accepted, so it can be concluded that the disclosure of the Economic Category *Sustainability Report* has an effect on firm value .

Based on table 1.4, it shows that the results of the research on the disclosure of the Environmental Category *Sustainability Report* on Company Value produce a *T-statistic value* of $1.960 > 1.585$ with a *P-value* of $0.050 < 0.113$. This suggests that H 2 was rejected, so it can be concluded that the disclosure *Sustainability Report* Environmental Category does not affect the value of the Company.

Based on table 1.4, it shows that the results of the research on the disclosure of the Social Category *Sustainability Report* on Company Value resulted in a *T-statistic value* of $1.960 > 0.497$ with a *P-value* of $0.050 < 0.620$. This shows that H 3 rejected, so it can be concluded that the disclosure *Sustainability Report* Category Social no effect on the value of the Company.

Discussion of Research Results

The Effect of Disclosure of *Sustainability Reports* in Economic Categories on Firm Value

Investors in the conduct of investment faced on two conditions, namely the hope of profits expected and the risks involved in the decisions. Transparency in economic conditions is one of the considerations for investors' decisions to invest. One form of transparency in economic conditions is the disclosure of a *sustainability report* in the economic category.

The test results on the first hypothesis (H 1) are accepted. This disclosure can increase investor interest in investing in company shares, because the transparency shown will increase investor confidence in the company. When the company's financial performance is good, investors will invest in the company so that the share price increases and the value of the company increases as well.

The Effect of Disclosure of *Sustainability Report* of Environmental Category on Firm Value

The environmental category *sustainability report* aims to show the extent of the company's concern for the environment. This disclosure requires companies to make disclosures on what contributions the company makes to the environment in which the company stands.

The results of testing the second hypothesis (H 2) show that the environmental category *sustainability report* has no effect on firm value. So the second hypothesis (H 2) is rejected. Based on the research that has been done there are only 1% who disclose this disclosure according to the guidelines. The percentage of companies that have not made this disclosure is appropriate the guidelines may indirectly harm companies that already have thoughts about *sustainable development* .

Some companies wish that this disclosure can improve the company's image which will also increase the value of the company, but the fact that occurs in Indonesia is that every year environmental damage is increasing and one of the reasons is the company's activities (Candra, 2016).

The Effect of *Sustainability Report* Disclosure of Social Categories on Firm Value

In the disclosure of the *sustainability report*, the social category contains the impact of the organization on the community in which the company operates, so this disclosure will show the company's concern for human rights, good labor practices, the comfort of working for the workers and responsibility for the products produced.

The results of testing the second hypothesis (H₃) show that the social category *sustainability report* has no effect on firm value. So the second hypothesis (H₃) is

rejected. Disclosure of *sustainability reports* in the social category focuses on the company's direct relationship with *stakeholders* consisting of workers and the community, especially consumers. This implies that the disclosure of social categories is not directly related to the interests of investors. Therefore, the disclosure of the *sustainability report* in the social category has no effect on the value of the company.

Conclusion

This study aims to determine pengaruh of disclosure *sustainability report* economic category, *sustainability report* environmental category, and *sustainability report* social category to value the company are listed on the Stock Exchange Indonesia period 2017-2018. Based on the results of the analysis and testing that has been carried out, some conclusions can be drawn as follows :

1. *Sustainability Report* Disclosure of Economic Category has an effect on Firm Value.
2. *Sustainability Report* Disclosure of Environmental Category has no effect on firm Value.
3. *Sustainability Report* Disclosure of social category no affect on firm value.

Suggestion

1. It is hoped that further research can increase the research period, because disclosure *sustainability report* is a sustainability report in the long term.
2. It is hoped that further research will add other independent variables to determine the factors that can increase firm value.

Limitations

This study has limitations that can affect the results of the study, namely, this study examines the timeframe that is too short because there are only two 2017-2018 periods. This study analyzes the disclosure of *sustainability report* with the guidelines applicable disclosure effective in the year 2018 and a year later, so that the effect of variables independent of the dependent variable can be disrupted consistency.

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