proceedings

MDPI

Proceeding Paper

The Quality of Sustainability Report Disclosure and Firm Value: Further Evidence from Indonesia †

Arthaingan H. Mutiha

Program Pendidikan Vokasi, Universitas Indonesia, Depok 16424, Indonesia; h.mutiha@ui.ac.id

† Presented at the 5th International Conference on Vocational Education Applied Science and Technology 2022, Teluk Betung, Indonesia, 26–28 October 2022.

Abstract: According to POJK No 51/POJK.03/2017, since January 2020, public companies are required to prepare a sustainability report (SR). This study aims to examine whether the quality of the sustainability report disclosure (SCR) has a significant association with firm value, and to examine SCR in a mandatory and voluntary context. This study uses a panel data regression method consisting of all publicly listed companies (nonfinancial companies) in Indonesia which published an SR in 2019 and 2020. The results show that there were differences in SCR in the voluntary period (2019) and the mandatory period (2020), and that SCR had a positive association with firm value.

Keywords: sustainability report; firm value; mandatory; voluntary; quality of sustainability report disclosure

check for updates

Citation: Mutiha, A.H. The Quality of Sustainability Report Disclosure and Firm Value: Further Evidence from Indonesia. *Proceedings* **2022**, *83*, 26. https://doi.org/10.3390/proceedings2022083026

Academic Editors: Ari Nurfikri, Triana Karnadipa, Karin Amelia Safitri, Debrina Vita and Widyo Swasto

Published: 26 December 2022

1. Introduction

According to the Financial Services Authority Regulation Number 51/POJK.03/2017 [1] concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, as of January 2020, public companies are required to prepare the sustainability report. In other words, annual reports and sustainability reports have become mandatory in Indonesia.

Prior to OJK Regulation Number 51/POJK.03/2017, at the end of 2016, there was an increase in the number of companies that voluntarily disclosed sustainability reports. However, the number can be considered relatively low compared to the total number of publicly listed companies in Indonesia.

The implementation of POJK 51/2017 has encouraged an increase in the number of sustainability reports prepared separately from the annual report (standalone report). According to a study conducted by FIRHSST in 2020 [2], the number of sustainability reports for the year 2020 increased compared to the year 2019. There were 121 sustainability reports in 2020, and 67 sustainability reports in 2019, this showed an increase of 81% in 2020 compared to 2019. However, although the trend showed a significant increase, the proportion was still unsatisfactory. The number of sustainability reports published was only 16% compared to all public companies in Indonesia, which amounted to 758 companies as of 31 August 2021. This number is expected to increase rapidly considering the mandatory context regulated by POJK No 51/POJK.03/2017.

This study aims to examine whether the quality of sustainability report disclosure has a significant association with firm value. In addition, this study examines the differences in the quality of sustainability report disclosure in a mandatory and voluntary context, specifically after the implementation of the Financial Services Authority Regulation Number 51/POJK.03/2017. In contrast to previous studies that measured the disclosure quality score using the GRI concept, this research uses a score based on the disclosures specified in OJK Regulation No. 51/POJK.03/2017. Thus, this research also shows what components in the OJK Regulations are still undisclosed by the majority of the companies. This paper contributes to ongoing research in several ways. Firstly, it studies the association between the quality of sustainability report disclosure and firm value, in mandatory and voluntary contexts. Secondly, in contribution to the practice area, the result encourages the use of a systematic approach to prepare sustainability reports.

2. Literature Review and Hypothesis Development

Signaling theory is a theory that emphasizes the dissemination of information about company performance. Signaling theory encourages management to disclose information of interest to investors [3]. When associated with this theory, companies publish sustainability reports in an effort to send a positive signal through the disclosure of information on economic, social, and environmental performance [4]. This information is expected as a positive signal that forms a positive market reaction and finally leads to an increment in firm value [5].

The focus of stakeholders has now shifted from a single P (profit) to Triple P (profit, people, and planet). The concept is based on the concept of sustainable development, which pays attention to the fulfillment of the present without reducing the opportunities for future generations to meet their needs. It is generally agreed that the report considered capable of showing the current three Ps is the sustainability report as it includes environmental and social factors, which, to some extent, will further increase company transparency, strengthen risk management, encourage engagement, and improve communication with stakeholders. In Indonesia, the regulation has been implemented through the Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Therefore, as of January 2020, sustainability reports have become mandatory in Indonesia.

Research Hypothesis

In the context of Indonesia, there are not many studies that addressed the quality of disclosure in a mandatory and voluntary context, as the implementation of POJK 51/2017 is still relatively new. Several previous studies that compared sustainability reports between mandatory and voluntary contexts were comparisons between Malaysian and Indonesian companies when the implementation of sustainability reports in Indonesia was still voluntary, whereas it was mandatory in Malaysia [6]. Therefore, this study attempts to fill this gap by trying to answer the research question of whether there is a difference in the quality of disclosure of sustainability reports in a mandatory and voluntary context.

Several studies provide evidence that sustainability reporting increases firm value and performance, and that there is a positive relationship between sustainability reporting and firm value [7]. Moreover, ESG (environmental, social, and government) practices are important considerations by investors in investment decisions, representing an important factor in increasing firm value [8]. The purpose of a company issuing a sustainability report is to disclose additional information related to the company's social, economic, and environmental activities [9]. This supports companies in creating transparency for stakeholders, thus later increasing the firm value [10]. Considering the previous arguments, the following hypothesis is proposed:

H1. *The quality of disclosure of sustainability reports (SCR) has a significant positive association with firm value (NP).*

3. Methodological Research

The population of this research comprised public companies (nonfinancial companies) listed on the Indonesia Stock Exchange in 2020. The sampling technique used was purposive sampling. The sample selection process met the following criteria: nonfinancial companies, with a sustainability report separate from the annual report for 2 years (2019 and 2020). The data sources were the annual reports and sustainability reports available on the company websites and Indonesia Stock Exchange website, as well as the Eikon Refinitiv Database. Financial institutions were excluded from this study due to the specific difference in the market value assessment and the calculation of book value compared to nonfinancial institutions.

3.1. Research Model

The research model was established as follows:

$$NP = \beta_0 + \beta_1\ SCR + \beta_2\ ROA_{i,t} + \beta_3\ Size_{i,t} + \beta_4\ Leverage_{i,t} + \varepsilon_{i,t}, \quad (1)$$

where NP is the firm value using Tobin's Q, SCR is the quality of sustainability disclosure, ROA is the return on assets, Size is the natural logarithm of total assets, and Leverage is the ratio between total liabilities and total assets.

3.2. Variable Operationalization

The independent variable in this study was SCR, defined as a score of the disclosure of the sustainability report's quality. This was measured by analyzing the content of the company's sustainability report according to Appendix of POJK 51 of 2017. A total score of 73 points can be obtained if the company makes all disclosures. The assessment category was divided into two major parts, sustainability strategy and governance (STK) and sustainable performance (KK). STK comprised 32 question points, each scored in the range of 0–1, while KK has 41 question points, each is scored in the range of 0–1. The components of the disclosure score are presented in detail in Table 1.

Table 1. Score of disclosure quality.

Sustainability Strategy and Governance (STK)—32 Points	Sustainability Performance (KK)—41 Points
(1) Sustainability strategy (1 point)	(1) Culture of sustainability (1 point)
(2) Company profile (6 points)	(2) Performance overview of the sustainability aspect (1 point)
(3) Management commitment on sustainability policy, implementation, and strategy (11 points)	(3) Economic aspect (8 points)
(4) Accessibility (1 point)	(4) Environmental aspect (11 points)
	(5) Social aspect (11 points)
(5) Sustainability governance (3 points)	Non-discrimination, minimum wage, occupational health and safety, and competence Development, grievance mechanisms, and composition Labor by gender and human rights
(6) Stakeholder engagement (3 points)	(6) Responsibility for the development of sustainable financial products and/or services (4 points)
(7) Determination of report content and topic boundaries and list of material topics (2 points)	(7) Supply chain sustainability (1 point)
	(8) Written verification from independent party (1 point)
	(9) Feedback sheet for readers (2 points)
	(10) Sustainability report index (1 point)

Source: POJK 5/2017.

The association between firm value and the quality of sustainability report disclosure is influenced by several variables that must be controlled. The three control variables in this study were ROA (return on assets), leverage, and firm size (size). Firm size (size) was measured using the natural logarithm of total assets, while company leverage was measured using the ratio between total liabilities and total assets. This variable was selected according to previous research [11].

4. Result

The total observations in this study comprised 40 companies that issued sustainability reports in 2019 and 2020, which could be accessed via their websites. There were 502 nonfinancial public companies listed at the end of 2020, among which 462 companies either did not provide/grant access to a sustainability report on their website or provided/granted access to only one sustainability report (in 2019 or 2020). Details of the total observations are presented in Table 2.

Table 2. Sample selection.

Description	Number
Nonfinancial public company listed until the end of 2020	502
Companies that did not provide/grant access to complete sustainability reports online	462
Companies selected as the research sample	40

Source: Companies' websites.

Table 3 shows the descriptive statistics of the study, including the mean, standard deviation, and minimum and maximum values of each variable studied. The NP variable had an average firm value of 0.02, a minimum value of −0.61 for PT PP, Tbk, and a maximum value of 0.59 for PT Jasa Marga Persero, Tbk. The ROA variable had an average ROA of 0.044, a minimum value of −0.09 for PT Bumi Resources, Tbk, and a maximum value of 0.36 for PT Unilever Indonesia, Tbk. The size variable had a mean value of 30.66686, a minimum value of 28.45906 for PT Astra Graphia, and a maximum value of 33.49453 for PT Astra International, Tbk. The SCR variable had an average score of 50, a minimum score of 20 for PT Mitrabahtera Segara Sejati, Tbk, and a maximum score of 69 for PT Indo Tambangraya Megah, Tbk. The leverage variable had an average value of 0.5178688, a minimum value of −0.2666055 for PT Bumi Resources, Tbk, and a maximum value of 2.632539 for the company PT PP Property, Tbk.

Table 3. Descriptive statistics.

Variable	No	Min	Max	Mean	Std. Dev.
SCR	80	20.16667	69	50.47708	11.35942
ROA	80	−0.0946106	0.3608353	0.0445206	0.0742903
NP	80	−0.6114468	0.5960042	0.0203126	0.2724425
Size	80	28.45906	33.49453	30.66686	1.241234
Leverage	80	−0.2666055	2.632539	0.5178688	0.3652794

Source: POJK 5/2017.

In the difference test (unreported in this study), the result showed that the disclosure score SCR was 48.43 in 2019 and was 52.53 in 2020, indicating an increase in the score in 2020 compared to 2019. Furthermore, the results of the difference test indicated a significant difference ($p < 0.05$) between the quality scores of both periods (before and after the implementation of the POJK) with respect to the disclosure of the sustainability report.

Table 4 presents the results of each component assessment. It shows that all companies (100%) made disclosures on the STK 4 component (accessibility), indicating that the sustainability report is available to be accessed online on their respective websites. Furthermore, 90% of companies disclosed STK 7 component (determination of report content and topic limits and list of material topics). On the other hand, the following disclosure components were provided by <70% of companies: STK 3 (management commitment to sustainability policy, implementation, and strategy), STK 8 (balanced information disclosure), STK 9 (contribution to sustainable development goals), KK 3 (economic aspect), KK 4 (environmental aspect), and KK 5 (social aspect), KK 6 (responsibility for the development of sustainable financial products and/or services), KK 7 (supply chain sustainability), KK 8 (written verification from independent parties), and KK 9 (reader feedback sheets). Among all components, the component with the lowest portion of 26% was KK 7 (supply chain sustainability). In KK 7, the company is required to disclose, in its sustainability report, information about supplier selection based on sustainability aspects.

Table 4. Assessment components of all companies.

No.	Component	Proportion
STK 1	Sustainability strategy	0.88
2	Company profile	0.84
3	Management commitment on sustainability policy, implementation, and strategy	0.63
4	Accessibility	1
5	Sustainability governance	0.85
6	Stakeholder engagements	0.76
7	Determination of report content and topic boundaries and list of material topics	0.90
8	Information disclosure balance	0.62
9	Contribution to the sustainable development goals	0.67
KK 1	Sustainability culture	0.71
2	Sustainability aspect performance overview	0.82
3	Economic aspect	0.65
4	Environmental aspect	0.67
5	Social aspect	0.68
6	Responsibility for the development of sustainable financial products and/or services	0.62
7	Supply chain sustainability	0.26
8	Written verification from an independent party	0.46
9	Feedback sheet for readers	0.42
10	Sustainability report index	0.87

Source: sustainability reports.

The Hausman Test yielded insignificant results, indicating no systematic difference between fixed-effect and random-effect panel regression. Therefore, this study used random-effect panel regression and then determined the robust standard error.

Table 5 presents the empirical evidence of the research; the F-value obtained was significant ($p < 0.05$) indicating that the model could be used in the study. The value of R^2 was 0.3019, indicating the extent of the ability of the independent variable to explain the dependent variable.

The results of the random-effect panel regression show that the SCR (sustainability reporting score) was significant, revealing a significant positive association with firm value. This supports the hypothesis proposed in this research. Moreover, the size and leverage variables had a significant positive relationship with firm value, and the ROA variable had a significant negative relationship with firm value.

Table 5. Random-effect panel regression.

Variable	Coeff	Prob	Sign
SCR	0.0016686	0.045	**
Size	0.0638409	0.007	*
Leverage	0.3742595	0.000	*
ROA	−0.7095839	0.001	*
Prob > F	0.000		
R^2	0.3019		

* and ** indicate significance at the 1% and 5% level, respectively.

5. Conclusions

This study aimed to examine whether the quality of sustainability report disclosure has a significant relationship with firm value, and to examine the difference in the quality of sustainability report disclosure in a mandatory and voluntary context, specifically after the implementation of Financial Services Authority Regulation Number 51/POJK.03/2017. Overall, the result revealed a difference in the quality of disclosure before and after the regulations were implemented. This shows that, in a mandatory context, in 2020, the quality of disclosure increased compared to the year 2019. However, the score in 2020 was only 52.53, in contrast to the total possible score of 73 points. This can be interpreted as the company not having fully disclosed adequate information in accordance with POJK 51 of 2017. The government as a regulator plays a significant role in encouraging the preparation of quality sustainability reports, such as training for practitioners and academics to become partners in the preparation of quality reports.

Meanwhile, this study found a significant positive relationship between disclosure quality and firm value. This is in line with the findings of previous research [12], which revealed a significant positive relationship between sustainability reports and firm value. This indicates that the purpose of the company in issuing a sustainability report is to disclose additional information related to the company's social, economic, and environmental activities. This supports the company in creating transparency for stakeholders, which is expected to increase the value of the company. This finding has implications for companies and managers. There is increased effort in preparing sustainability reports in accordance with POJK 51/2017.

According to the content analysis on the quality of disclosure, it can be concluded that there are many components specified in POJK 51/2017 that remain undisclosed, such as information related to management commitment to sustainability policy, implementation and strategy, balance of information disclosure, contribution to the sustainable development of objectives, disclosure of economic aspects, environmental aspects, and social aspects, responsibility for the development of sustainable financial products and/or services, supply chain sustainability (supply chain), written verification from independent parties, and feedback sheets for readers.

This study had some limitations. The main limitation was subjectivity in conducting content analysis to determine the disclosure score and the depth of measurement of each component. Further research is needed to assess the quality of each disclosure component on the basis of specific contextual settings such as the type of industry, due to some components in POJK 51/2017 not being relevant for certain industries.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: Not applicable.

Conflicts of Interest: The author declares no conflict of interest.

References

1. Keuangan, Otoritas Jasa. Peraturan Otoritas Jasa Keuangan Nomor 51/POJK.03/2017 Tentang Penerapan Keuangan Berkelanjutan Bagi Lembaga Jasa Keuangan, Emiten, dan Perusahaan Publik. 2017. Available online: https://ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Pages/POJK-Penerapan-Keuangan-Berkelanjutan-bagi-Lembaga-Jasa-Keuangan,-Emiten,-dan-Perusahaan-Publik.asp (accessed on 3 February 2022).
2. Foundation for International Human Rights Reporting Standards. FIHRRST: Studi Laporan Keberlanjutan Tahun 2020 Perusahaan Publik di Indonesia". 2021. Available online: https://www.fihrrst.org/study-launch-2020-sustainability-reports-of-public-companies-in-indonesia.html (accessed on 3 February 2022).
3. Deegan, C. The legitimizing effect of social and environmental disclosures: A theoretical foundation. *Account. Audit. Account. J.* **2002**, *15*, 282–311. [CrossRef]
4. Kuzey, C.; Uyar, A. Determinants of sustainability reporting and its impact on firm value. *J. Clean. Prod.* **2017**, *143*, 27–39. [CrossRef]
5. Ahn, J. Corporate Social Responsibility Signaling, Evaluation, Identification, and Revisit Intention among Cruise Customers. *J. Sustain. Tour.* **2019**, *27*, 1634–1647. [CrossRef]
6. Halimah, N.P.; Irsyanti, A.; Aini, L.R. The Value Relevance of Sustainability Reporting: Comparison. *Indones. J. Account. Res.* **2020**, *23*, 447–466.
7. Lawrence, L.; Tomas, T.; Wang, Y. Sustainability Reporting and Firm Value: Evidence from Singapore Listed Companies. *Sustainability* **2017**, *9*, 2112.
8. Loprevite, S.; Ricca, B.; Rupo, D. Performance sustainability and integrated reporting: Empirical evidence from mandatory and voluntary adoption contexts. *Sustainability* **2018**, *10*, 1351. [CrossRef]
9. Miralles-Quirós, M.M.; Miralles-Quirós, J.L.; Gonçalves LM, V. The Value Relevance of Environmental, Social, and Governance Performance: The Brazilian Case. *Sustainability* **2018**, *10*, 574. [CrossRef]
10. Ruhnke, K.; Gabriel, A. Determinants of voluntary assurance on sustainability reports: An empirical analysis. *J. Bus. Econ.* **2013**, *83*, 1063–1091. [CrossRef]
11. Kumar, K.; Kumari, R.; Poonia, A.; Kumar, R. Factors influencing corporate sustainability disclosure practices: Empirical evidence from Indian National Stock Exchange. *J. Financ. Report. Account.* **2021**. [CrossRef]
12. Karaman, A.S.; Kilic, M.; Uyar, A. Sustainability reporting in the aviation industry: Worldwide evidence. *Sustain. Account. Manag. Policy J.* **2018**, *9*, 362–391. [CrossRef]