The Impact of Sustainability Reports toward the Firm Value

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Abstract:

The main aim of this study is to identify the impact of sustainability report of the economy (EKO), labor (KET), and human rights (HAM), toward the firm value (NP).

The first hypothesis proposed was that economic context had a positive effect to firm value; the second hypothesis is that labor had a positive effect to firm value, and the last hypothesis is that human rights have a positive effect to firm value.

The target group of this study has included listed companies in the Indonesia Stock Exchange in the period 2014-2015 and data sources from the financial statements and annual reports in the same period.

The sample method used is a purposive sampling method based on the data completeness provided while 74 independent samples are obtained. The hypotheses are tested using multiple regression methodology.

The result shows that simultaneously, the economy, labor, and human rights give a significant impact toward the firm value, labor and human rights categories don't give a significant impact toward the firm value.

Keywords: Sustainability report, economy category, labor category, human rights category, firm value.

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1. Introduction

The business growth in today's globalization era, is no longer focused on financial observations or the state of a company alone, but is a combination of financial, social and environmental aspects. These three elements are the key to the sustainable development concept. Each company essentially needs to put a cost for its company's social responsibility, and this presents a dilemma for a company where they have to increase the profit to improve the firm value, but at the same time, not be careless in carrying out their social responsibility.

The firm value is defined as a market value, due to its ability to give a wealth to the shareholders if the stock value is increasing. In general, to achieve/increase the firm value, the financiers will hand the management of the company to the professionals. The professionals are positioned as a manager or commissioner (Nurlela and Islahuddin, 2008).

The firm value should be safeguarded by the company management, due to its relationship to the company operational continuity (Giannakopoulou *et al.,* 2016). Taking PT Bumi Resources Tbk (BUMI) as an example, when the deterioration in firm value happened, this was reflected in the stock value that decrease sharply. This company is active in terms of acquisition, but they overlook the financial ability. Based on the data of Indonesia Stock Exchange, in three-year period since 2011, the stock of BUMI once in the highest level of Rp 3,650 on May 5, 2011. The stock was in the lowest level, Rp 187 per share on April 16, 2014.

There are many factors affecting the decrease and increase of firm value, namely, foreign share ownership, management share ownership, company profitability, company assets, social responsibility disclosure, etc. The company social responsibility disclosure or commonly called as Company Social Responsibility (CSR), is one of the ways used by the management to improve the firm value along with social responsibility implementation. The proof that a company t has implemented the CSR appropriately is by issuing the sustainability report. The reference used in the Sustainability Report Preparation is G4, issued by Global Reporting Initiative (GRI). The G4 guidance is divided into 3 aspects or categories in a disclosure of sustainability report, the these are: economy category, environment category, and social category. The social category is divided into 4 sub-categories, namely, labor category, human rights category, society category, and product responsibility category.

Based on the background and the identification of the problem, as has been stated above, the problems presented and discussed in this study are: (1) Does the economy category in sustainability report affect the firm value?; (2) Does the labor category in sustainability report affect the firm value?; (3) Does the human rights category in sustainability report affect the firm value?

2. Literature Review, Conceptual Framework, and Hypothesis

According to Suharto (2007), "CSR (Corporate Social Responsibility) is a business operation not only committed to improve the company benefit financially, but also for the development of social-economics holistically, institutionally, and sustainable". In the context of empowerment, CSR is a part of company policy implemented professionally and institutionally. Therefore, CSR is identical with CSP (Corporate Social Policy), which is the strategy and roadmap of a company integrating the corporate economy responsibility and legal, ethical and social responsibilities. As a result of this social activity, the company issues its' Sustainability Report (Ivanova and Bikeeva, 2016; Savina, 2016).

Sustainability Report can be completely defined as a Report issued by a company to disclose the company performance in the economy, the environment, and social aspects, as well as a company's effort to be accountable to all of the stakeholders through its sustainable development (Global Reporting Initiative, 2013). The intention of the Sustainability Report is to communicate the commitment towards the economy, environement, and social performances to the stakeholders and communities in a transparent way. Through the report, the stakeholders can obtain a clearer image regarding the sustainable development activities conducted by the Company.
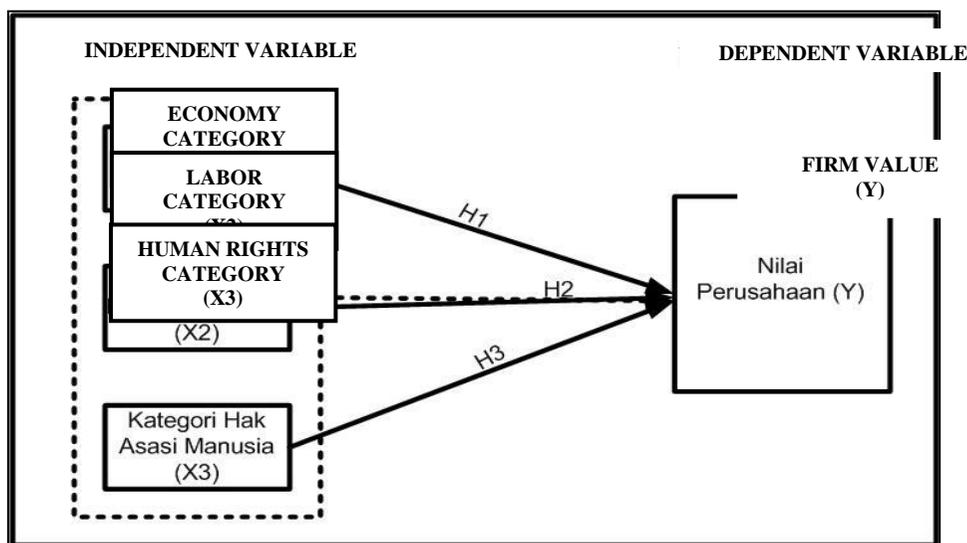
The implementation of CSR activities cost money and this definitely affects the profits that are supposed to be obtained by the company. This is in contrast with the company's objectives postulated by some experts. According to Dicksee, (1976) the main objective of a company is to make a profit (Profit Oriented) for the stakeholders through the activities of the company.   The management should be able to manage the funds allocated to CSR activity appropriately, besides, the funds issued for the CSR have as the ability to be used as an indirect marketing tool, which will simultaneously be able to improve the total sales and share value of the company.

Inoue and Lee (2010) studied the impact of CSR on the financial performance of a company in the tourism industry in the United States. That study was aimed to separate the CSR into five dimensions based on the voluntary activities conducted by a company for five main stakeholder issues, namely, relationship with the employee, product quality, relationship with the community, environment matters, and diversity matters. They identified the impact of those aspects on the company's financial performance, which consist the short-term profitability and future profitability in four tourism sectors in United States which are, flight, casino, hotel, and restaurant. The study used a database of 3,600 annual reports in the United States which were published results of KLD STATS during 1991-2007 period. The result of the study concluded that CSR does positively affect the company's profitability.

Jong-Seo *et al.* (2010) investigated an empirical relationship of CSR with the company's financial performance in Korea. That study was aimed to identify the empirical relationship between SCR and company financial performance by providing the first comprehensive proof that Korea has used a multi-dimension CSR measurement. The study used a data from 1,122 companies listed in Korea Exchange (KRX) for the period of 2002-2008. The result of the study showed that there was a positive and significant relationship between stakeholder weighted-index CSR and a company's financial performance but there was no significant relationship between weighted average CSR index and company financial performance.

Hypothesis is a notion or prediction about phenomena or relationship between different phenomena (Istianingsih, 2015). Prior to the disclosure of the hypothesis, the framework can be seen in Figure 1 below:

Figure 1. *Research framework*

———————▶ : Shows the partial relationship
·····················▶ : Shows the simultaneous relationship

Based on relevant theories and concepts as well as the result of previous studies, the hypotheses used in this research are as follows:

H1: The sustainability of the economy positively affects the firm value.
H2: The sustainability of labor Category positively affects the firm value.
H3 : The sustainability of human rights positively affects the firm value.

3.   Research Methodology

The type of research used in this study is causality research, aimed to identify the influence of one or more independent variables to the dependent variable. The definition of operational definition is to operating or operationally define the concept to make it measureable, conducted by taking a look at behavior, aspect or characteristic dimensions shown by a concept (Sekaran, 2013). The author uses a statistic parametric testing in this study. Statistic parametric is used if the author knows the fact about a group of data used as sample source (Supranto, 2001).

Population refers to the whole group of people, events or interests that need to be investigated by the author. Meanwhile, sample is a part of population or sub-group of population; a sample consists of a number of members selected from population who are representative of that population (Sekaran, 2013). The chosen sample can be seen from Table 1 below:

Table 1. *Research Sample*

No	Information	No. of Companies
1	Number of company population listed in Indonesia Stock Exchange	547
2	De-listing Company	(2)
3	Incomplete Financial Report	(52)
4	Not Issuing an Annual Report	(154)
5	Not Issuing a Sustainability Report	(302)
6	Total	37
7	Samples Totalof 2014-2015	74

To achieve the study objective, the authors use statistical analysis, by using SPSS (Statistical Productand Service Solution) version 20 for windows. Below are the methods of data analysis to measure the impact between independent and dependent variables and test the proposed hypotheses.

3.1 Descriptive Statistic

Descriptive statistics are used to identify the rate of disclosure of the sustainability report, firm value and percentage of management ownership in the mining companies listed in Indonesia Stock Exchange. The measurements used in this study are minimum value, maximum value, mean and standard deviation.

3.2 Classic Assumption Test

The authors use a classic assumption test, to identify and test the feasibility of the regression model used in this study. The study ensures that there are no multicollinearity and heteroskedasticity in the regression model and the resulted data is normally distributed (Ghozali, 2014).

A. *Normality Test:* The aim of the normality test is to test whether in the regression model, the residual variable has a normal distribution.

B. *Multicolinearity Test:* Multicolinearity test is aimed to test whether in the original regression model, there is a relationship between each independent variable. The common cut-off value used to show the multicolinearity is tolerance value of ≤ 0.10 or equals as VIF value of ≥ 10.

C. *Heteroskedasticity Test:* Heteroskedasticity test is aimed to test whether in the regression model, there is variance inequality from one observation residual to another. The statistical test conducted in this study is Glejser test, where, if there is significant value between independent variables with residual absolute more than 0.05, there will be no heteroskedasticity.

3.3 Multiple-Linear Regression Analysis

The multiple linear regression analysis in this study is used to test the model to identify the impact of independent variables specifically toward the firm value. The regress equation is:

$$NP = \alpha + \beta 1\ EKO + \beta 2\ KET + \beta 3\ HAM + e$$

where:
NP   = Tobin's Q Firm Value
α = Constant
$\beta 1$-$\beta 3$ = Regression Coefficient
EKO   = Economy Category
KET   = Labor Category
HAM   = Human Rights Category
e   = Error Term (author's error during the research)

3.4 Hypothesis Testing

The hypothesis tests used in this study are:

A. Determination Coefficient Test (R^2). Determination coefficient test is used to measure to what extent the model's ability is applied to the dependent variation. The value of determination coefficient shows the percentage of impact of independent variable towards the dependent variable that is shown in adjusted R square (R^2) statistic.

B. Simultaneous Significance Test (F-Test). F-Test is used to test the level of impact the independent variable has towards the dependent variable together. In F-Test, the drawn conclusion is by taking a look at significance level (α) with the following conditions: $\alpha > 10\%$: H0 is accepted, $\alpha < 10\%$: H0 is rejected.

C. Individual Parameter Significance Test (t-Test). The test is conducted to see whether each independent variable has a significant impact towards the dependent variable. The test criteria are: H0 is accepted if the probability value is (sig t) > c (0.05) and p value> 0.05, otherwise, it will be rejected.

4. Results and Discussion

In this part, we will explain the result of data processing by using SPSS 20 data analysis software. Descriptive Statistics explain the data description from all variables used in research concept (Table 2).

Table 2. *Descriptive statistics*
Descriptive Statistic Table

	N	Minimum	Maximum	Mean	Std. Deviation
EKO	74	,0000	1,0000	,527027	,2522088
KET	74	,1250	1,0000	,496622	,2432505
HAM	74	,0000	1,0000	,242117	,3050716
NP	74	,6220	12,0373	1,604768	1,6308287
Valid N (listwise)	74				

From the descriptive statistics Table 2 above, we can see that the biggest standard deviation is 1.6308287 which is for the firm value (NP). The standard deviation of 1.6308287 is less than 3, meaning that the data can be processed further with regression.

4.1 Classical Assumption Test

Before the regression model is used, a classic assumption test is conducted first to identify the relationship between the independent variables and the dependent variable (Ghozali, 2014).

A. Normality Test
The normality test is conducted by using Kolmogorov-Smirnov test shown in Kolmogorov-Smirnov Normality Test Table 3. Based on the test result in Table 3, is shown that the value of Asymp.Sig. 0.599 is bigger than 0.05, so it can be concluded that the residual value in this study is normally distributed.

Table 3. *Kolmogorov-Smirnov Normality Test*

		Unstandardized Residual
N		74
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	,25625256
Most Extreme Differences	Absolute	,153
	Positive	,124
	Negative	-,153

Kolmogorov-Smirnov Z	,766
Asymp. Sig. (2-tailed)	,599
a. Test distribution is Normal.	
b. Calculated from data.	

B. Multicollinearity Test

Based on the test result shown in the multicolinearity test Table 4, it is shown that tolerance value is bigger than 10% and the VIF value of all variables is less than 10. Therefore, it can be concluded that this study is free from multicolinearity symptoms.

Table 4. *Multicollinearity Test*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,016	,127		7,966	,000		
	EKO	,544	,246	,485	2,212	,038	,792	1,262
	KET	-,446	,352	-,404	-1,266	,219	,374	2,670
	HAM	,109	,296	,110	,370	,715	,432	2,315
a. Dependent Variable: NP								

C. Heteroscedasticity Test

Heteroscedasticity test is aimed to test whether there is variance inequality residue of one observation to another. To detect the heteroscedasticity, we use the Glejser test shown in the Heteroscedasticity Test Table 5. Based on the results in Table 5, it is shown that all of the independent variables have a sig value bigger than 0.05. It is concluded that there is no heteroscedasticity.

Table 5. *Heteroscedasticity Test*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,306	,053		5,802	,000
	EKO	-,160	,102	-,356	-1,574	,130
	KET	-,042	,146	-,094	-,286	,778
	HAM	,026	,122	,065	,212	,834
a. Dependent Variable: RES2						

4.2 Hypothesis Testing

A. Adjusted R Square Value

The study considers adjusted R Square value due to the fact that more than two independent variables are used. Based on the multiple regression analysis shown in the adjusted R square value table, one can see that the corresponding value is 0.121 or 12.1% (Table 6). This means that aside of Economy (EKO), Labor (KET), and Human Rights (HAM) categories, there is still 87.9% more variant attributed to other factors that affect the firm value (NP). Other possible factors that can stimulate the growth of firm value are, foreign share ownership, management share ownership, company profitability, company assets and etc.

Table 6. *Adjusted R Square Value*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,481[a]	,231	,121	,19818

a. Predictors: (Constant), EKO, KET, HAM

B. Simultaneous Significance Test (F Statistic Test)

Based on the F-statistic test shown in the simultaneous significance test Table 7 (f-test) ANOVA, one can see that the F value is 3.608 with the probability of 0.017. The probability value is shown to have a lower value compared to significance level that has been set by the authors, which is 5% or 0.05. From this result, it can be concluded that the Economy (EKO), Labor (KET), and Human Rights (HAM) categories affect the Firm Value (NP), simultaneously.

Table 7. *Simultaneous Significance Test*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,429	3	,143	3,608	,017[b]
	Residual	2,772	70	,040		
	Total	3,201	73			

a. Dependent Variable: NP
b. Predictors: (Constant), EKO, KET, HAM

C. Individual Parameter Significance Test (T-statistic Test)

Based on the t-statistic test Table 8, one can see the impact from economy, labor and human rights categories toward the firm value partially as follows: (1) economy category (EKO) has a significance value of 0.038. The significance value of 0.038 is lower than 0.05, showing that the economy category significantly affect the firm value; (2) Labor category (KET) has a significance value of 0.219. Significance value of 0.219 is higher than 0.05 showing that the labor category insignificantly affects the firm value; (3) Human rights category (HAM) has a significance value of 0.715, which is higher than 0.05 showing that human rights category insignificantly affects the firm value.

Table 8. *T-Statistic Tests*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,016	,127		7,966	,000
	EKO	,544	,246	,485	2,212	,038
	KET	-,446	,352	-,404	-1,266	,219
	HAM	,109	,296	,110	,370	,715
a. Dependent Variable: NP						

4.3 Multiple Linear Regression Equation

Based on t-statistic test in Table 8, one can formulate the multiple linear regression equation as follows:

NP = 1,016 + 0,544*EKO - 0,446*KET + 0,109*HAM + e

The regression coefficient for economy category (EKO) is 0.544 showing that for every 1% addition of economy category disclosed in sustainability report, will increase the firm value (NP) by 54.4%. The coefficient is significant. The regression coefficient for labor category (KET) is -0.466, showing that for every 1% addition of labor category disclosed in sustainability report will decrease the firm value (NP) by -44.6%. However, the coefficient is insignificant. The regression coefficient of human rights category (HAM) is 0.109, showing that for every 1% addition of human rights category disclosed in sustainability report will increase the firm value (NP) by 10.9%. However, the coefficient is insignificant.

5. Conclusion

CSR is commonly regarded as the core of ethical business, which means that every company is not only catering to the economy and legal obligations, but it is also considering the obligations towards other stakeholders whose scope is beyond the economy and legal obligations. CSR refers to all the relationships which happen in a company between the stakeholders, customers, employees, community, owners or investors, government, suppliers, and competitors. Global Reporting Initiative (2013) states that this comprehension known as 3P (profit, people, planet), is the business objective looking for a profit, but also allowing people to prosper and ensuring the sustainability of the planet (Dahli and Siregar, 2008). The development of the company's social programs can be done in the form of physical aid, health service, community development, outreach, scholarship and etc.

Based on the results obtained through the statistical testing as well as the discussion as explained above, it can be concluded that:

1. Economy category significantly affects the firm value. The result of the study shows that the economy category (EKO) has a coefficient of 0.544 and significance level at 0.038 which is lower than 0.05. Therefore, the economy category significantly affects the firm value with a coefficient 0.544 (positive effect).

2. Labor category insignificantly affects the firm value. The result of the study shows that the labor category (KET) has a coefficient of -0.446 and significance level at 0.219 which is bigger than 0.05. Therefore, the labor category insignificantly affects the firm value.

3. The human rights category insignificantly affects the firm value. The result of the study shows that the human rights category (HAM) has a coefficient of 0.109 and significance level at 0.715 which is bigger than 0.05. Therefore, the human rights category (HAM) insignificantly affects the firm value.

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