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The Role of Financial Performance in the Relationship between Sustainability Report and Company Value in Indonesia

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Abstract---*This study aims to reveal the role of Financial Performance in the relationship between Sustainability Report and Value Company in Indonesia. The research population is a company going public on the Indonesia Stock Exchange that publishes a sustainability report. This study uses a quantitative approach. The sampling technique is purposive. The proxy value of the company is Q-Tobin. Proxy of Financial Performance is DER & ROE. Data processing uses Multiple Regression Analysis (MRA). The results showed that the relationship between Sustainability Report and Company Value was not significant without the role of DER and ROE. This means, significantly DER and ROE are true moderator variables. Although both variables are significant, the role of ROE is higher than that of DER. ROE is able to strengthen the relationship between Sustainability Report and Corporate Value of 82.70%, while DER strengthens the Sustainability Report relationship with the company value of 59.30%.*

Keywords---*Sustainability Report, Company Value, SRDI (Sustainability Reporting Disclosure Index, ROE (Return On Equity), DER (Debt to Equity Ratio).*

I. Introduction

Sustainability report is useful to improve the quality of information and reduce doubts about published reports, so that it will produce reliable and comparable information. According to Hahn & Kühnen (2013) [1], the Global Reporting Initiative (GRI) introduces a guideline that contains disclosure standards, so it can facilitate companies in preparing sustainability reports, and can encourage companies to provide more transparent reports

Sustainability report is a report containing information on company performance in the economic, social and environmental fields. Sustainability report is prepared based on the standards of GRI reporting. In the standard reveals the breadth and results that occur in a particular reporting period, which includes organizational commitment, strategies, and management policies applied. The GRI reporting standard is a standard that is used as a reference and is intended as a generally acceptable framework for reporting economic, environmental and social performance of a company.

The results of the sustainability report research in Indonesia have been widely carried out, but have produced inconsistent results. Dewi and Sudana (2015) [2] research shows the positive effect of sustainability report as measured by the sustainability reporting disclosure index (SRDI) on Return on Assets (ROA). But Susanto (2013) [3] and Lesmana (2014) [4] research results provide the opposite results, namely Sustainability Report has a negative effect on return on assets. This happens because spending on sustainability activities causes a decrease in corporate profits. Tarigan and Semuel (2014) [5] divided the sustainability report dimension into three parts, namely economic, environmental, and social. The results showed

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that the economic dimension of sustainability report had no effect on financial performance, but the environmental and social dimensions had a negative effect.

This study focuses on the effect of sustainability report disclosure on firm value with financial performance as a moderator variable. The research population is a publicly listed company listed on the Indonesia Stock Exchange (IDX), which issued a Sustainability Report in the period 2014 to 2016. Dependent variables, Corporate Value is measured by Tobin's Q, while the independent variable uses Sustainability Report, and moderating variables, Financial of Performance with ROE and DER proxy.

II. Theory and Hypothesis Development

Legitimacy Theory

Legitimacy theory is a theory that focuses on the interaction between the company and society, and its social environment. Legitimacy theory explains that companies operate in a constantly changing external environment and they try to ensure that their behavior is in accordance with the boundaries and norms of society. Barkemeyer (2015) [6] explains that the legitimacy theory of companies in developing countries has two social responsibilities: (1) has the ability to maximize about how the company motivates in its social responsibility activities. (2) cultural factors can be included in the organization's legitimacy to form different institutional pressures in different contexts

Signalling theory

Signaling theory is a theory that explains how the company acts to provide signals in the form of information to interested parties used in decision making by providing an overview of the condition of the company. The signal is in the form of company information published in the form of financial and non-financial reports (sustainability report) that describe the condition of the company in the past, today, and the future for the survival of the company that is useful for investors as an analytical tool, the information can contain signals positive or negative [7].

Hypotheses Development

Sustainability report contains disclosures in an effort to increase accountability of all company activities. This report is also used by the company to achieve sustainability. According to Gunawan and Mayangsari (2015) [8] the company's ability to disclose social activities and its performance in sustainability reports is very effective as a form of corporate accountability, responsibility and transparency to stakeholders. This report is believed to increase the value of the company

Legitimacy theory in its general form can provide an important view of the practice of corporate social disclosure. The company will try to gain legitimacy from the community by implementing programs that are in accordance with the wishes or expectations of the community. The company will make sustainability report as a form of legitimacy of the company in order to gain legitimacy from the community, because the sustainability report is believed to be able to enhance reputation, and can provide added value, high reputation and corporate trust in the consumer's impact on loyalty which will ultimately increase company revenue [8].

Disclosure of sustainability report is one of the factors that influence company value because it is one of the rationale that underlies the business ethics of a company. The more companies disclose the sustainability report, the better the value of the company in the eyes of investors, creditors, or the public. Based on the explanation above the first hypothesis was formulated as follows:

H_1: Sustainability report affects to the company value

Signaling theory explains how companies disclose information to external parties. Companies that have more value will be a positive signal to investors. Investors will be interested in companies that have promising prospects. Profitability will be the main attraction for investors. High profitability shows a good prospect for the company, so investors will respond positively to the signal and the value of the company will increase. In line with the research conducted by Susanto (2013) [3] which stated that sustainability report had a significant positive effect on profitability.

According to the legitimacy theory, basically the disclosure of corporate social responsibility aims to show the public the social activities carried out by the company and its influence on society. The purpose of the company's social disclosure is not to support the company's main goal in getting the maximum profit.

Profitability in theory is positively related to company value. The higher the profitability, the higher the company value and the lower the profitability, the lower the company value. The better the company pays return to shareholders, the higher the value of the company. Based on the explanation, the researcher compiled the second hypothesis as follows:

H_{2a}: ROE moderates the relationship between Sustainability Report and Company Value

Solvability ratio is also one of the important ratios to be calculated, the use of debt must be considered carefully by the management, because the greater the debt will be able to reduce the value of the company. This is reinforced by the study of Artini & Suarjaya (2012) who were found that leverage has a significant influence on firm value.

DER is a ratio used to calculate debt and capital, which can cover debts to external parties, this ratio also shows the relationship between the number of long-term loans given to creditors with the amount of their own capital given by the owner of the company to run their operations every company have various needs, especially those related to the use of capital so that the company can run as it should. Such capital will always be needed to cover all or part of the costs needed, and also needed to expand or expand new businesses or investments which means that in the company there must always be a certain amount of capital available so that it is needed when needed. Use of debt must be careful by management, because the greater the debt will reduce the value of the company. Anggiyani (2016) states that financial performance in the DER proxy influences sustainability report disclosure, reinforced by the research of Artini & Suarjaya (2012) who find leverage has a significant influence on firm value, and is supported by Agustina (2017) [9] research which shows that leverage variables (DER) has a significant influence on the value of the company on companies in the Indonesia Stock Exchange (IDX).

H_{2b}: DER moderates the relationship between Sustainability Report and Company Value

III. Research Method

This type of research is quantitative research, with multiple regression analysis (MRA). The research population is a company that goes public and is listed on the Indonesia Stock Exchange (IDX), which issued a Sustainability Report in the period 2014 to 2016. Data was obtained from www.idx.co.id. The study sample used a purposive sampling method with criteria: 1) Publish a complete annual report. 2) Publish sustainability reports. 3) Having complete data related to the variables used in the study; 4) Publish financial statements.

The dependent variable is Corporate Value measured using Tobin's Q. The following is the formula for measuring Tobin's Q developed by [10]:

$$\text{Tobin's Q} = \frac{\text{MVE + DEBT}}{\text{TA}}$$

Notes :

MVE = Equity Market Value (EMV = closing price x outstanding shares)

DEBT = Book value of total debt {(current debt – current assets) + long term debt}

TA = Total assets

The independent variable is the Sustainability Report. This variable is measured through the Sustainability Report Disclosure Index (SRDI) with the GRI-G4 index consisting of 149 items, calculated using the SRDI formula as follows [8].

$$\text{SRDI} = \text{V/M}$$

Notes :

SRDI = Sustainability report Disclosure Index

V = Total score disclosure by the company

M = Maximum score amount (GRI-G4 = 149)

In this study the moderator variable is Financial Performance which is measured using two proxies, namely ROE (Return On Equity) profitability ratio, and DER solvency ratio (Debt to Equity Ratio). Return on Equity (ROE) is one proxy of profitability financial ratios from the perspective of shareholders, this ratio is a ratio that shows the company's ability to generate profits with its own capital, then the formula for calculating ROE is [5].

$$\text{ROE} = \text{Net profit / Total equity}$$

Debt to Equity Ratio (DER) is a measure of the solvency ratio. The company should have a debt whose amount should not exceed its own capital so that the burden borne is not too high. The smaller the ratio, the better, is due to the smaller portion of debt to capital. The following is the formula for calculating DER (Debt to Equity Ratio) [11].

$$\text{DER} = \text{Total debt / Total Equity}$$

IV. Result of Research and Discussion

Results of Research

The research hypothesis was tested with multiple regression analysis (MRA), with a significant value of 5%. The normality of the data was tested by Kolmogorov-Smirnov. The results of the normality test show that all data are normally distributed with a significance value of 0.247> 0.05. These results indicate that the MRA model can be applied.

A good MRA model, also characterized by no multicollinearity. The results of the Variance Inflation Factor (VIF) test for all Independent variables (SRDI, ROE, DER) are each worth less than 10, so it can be concluded that multicollinearity does not occur. Heterocedasticity test results show points that do not form a particular pattern and spread above and below the number 0. This result means that the independent variables used in this study did not occur heterocedasticity. The research analysis model is:

NP = α2 + β2SR + β3ROE + β4SR*ROE + e2 (1) (table 1)

NP = α3 + β5SR + β6DER + β7SR*DER + e3 (2) (table 2)

Table 1. Result of Multiple Regression Analysis (MRA) (1)

Variabel Independen	Company Value (CV) (β) Unstandardized Coefficients	t	Sig.
(Constant)	.604	1.409	.167
SRDI	6.798	2.125	.040
ROE	30.577	7.462	.000
SRDI*ROE	-41.233	-5.367	.000
F Statistic		81.514	.000**
R			.898**
R^2			.807
Std. Error			2.188

**Predictors: (Constant), SRDI*ROE, SRDI, ROE

Table 2. Result of Multiple Regression Analysis (MRA)

Variabel Independen	Company Value (β) Unstandardized Coefficients	t	Sig.
(Constant)	-.513	-.519	.607
SRDI	20.479	2.720	.010
DER	11.051	4.532	.000
SRDI*DER	-13.292	-2.887	.006
F Statistic		20,608	.000**

R	.717**
R^2	.514
Std. Error	3.473

**Predictors: (Constant), SRDI*ROE, SRDI, ROE

Discussion

Relationship between Sustainability Report and Company Value

The result of hypothesis 1 test, is that the Sustainability Report has no effect on Company Value (H1 is rejected). This means that the Sustainability Report is not able to increase Company Value, so the disclosure of sustainability report is to increase investor interest in buying company shares in this research is not proven. This is due to investors in assessing the company still focused on the company's financial performance, therefore the second hypothesis the researcher adds a moderating variable, namely financial performance to find out empirical results.

The results of hypothesis 1 test conflict with signaling theory. This theory recommends that the Sustainability Report is able to provide a positive signal so that investors feel confident about the company's shares, so that the company's value becomes positive. So the results of this research do not support signaling theory.

The Role of Financial Performance (ROE) in the Relationship between Sustainability Report and Corporate Value

The results of the second hypothesis test (H2a) are accepted. This means that ROE can moderate the effect of Sustainability Report disclosures with Company Values. The results of this study indicate that the variable profitability (ROE) as a moderating variable has a significant negative effect on the relationship between the Sustainability Report and company value. meaning that ROE weakens the relationship between sustainability report and company value. Shareholders in principle are the owners of the company. Therefore shareholders hope to gain profits from the company. The increase in profits caused the value of the company to increase. The results of this study prove that signaling theory is supported by empirical results. Because high profitability is the trigger for investment. The higher ROE will signal that the company can generate profits for shareholders.

The results of this study also support the legitimacy theory. According to the theory of legitimacy, sustainability report has a positive impact on the company so that stakeholders will believe that the company has operated well in accordance with the norms that apply in the community. On the other hand it is also able to improve the company's positive image.

The Role of Financial Performance (DER) in the Relationship between Sustainability Report and Corporate Value

The third hypothesis (H2b) in this study was received significantly. It is proven that DER can moderate the sustainability report relationship with company value. Through DER, investors can find out information regarding the company's ability to pay off long-term debt. The smaller this ratio shows the risk of corporate debt becoming more secure. The results of this study are legitimacy theories. This theory explains the level of corporate alignments with their social environment. This will be responded positively by the market, because the sustainability of the company will be maintained. In addition, the results of this hypothesis test also support signaling theory. The smaller the DER and will be able to give a positive signal to investors, in this case the investor considers that the company is considered capable of paying off its long-term debt in accordance with the maturity.

The results of the MRA analysis provide evidence that ROE and DER are capable of acting as moderating variables perfectly. The role of ROE as a moderating variable is higher than that of DER. Because ROE has an R^2 value of 0.827, while DER is only 0.593. This means that ROE is able to strengthen the relationship between sustainability reports and company value of 82.70%, while DER strengthens the sustainability report relationship with the company's value of 59.30%.

This research proves that investors in Indonesia pay more attention to ROE compared to DER. Although in general, both ROE and DER have a strong and significant effect. This tendency of investor behavior needs attention, because the profit indicated by ROE is indeed important. Profit is also able to encourage companies to maintain investment and sustainability. But it's important to remember that DER is a manifestation of debt. Investors should also pay attention to this wisely. Because the debt ratio is not maintained (DER) or mismanagement in debt management can have a negative impact on the long term for the company, so that in turn can lead the company towards losses.

V. Conclusions

The results of this study can be summarized as follows:

1) There is no direct relationship between sustainability report and company value.

2) The relationship between sustainability report and company value will only occur if there are moderators of financial performance (ROE and DER). This also proves that financial performance plays a perfect role as a moderator variable.

3) Signaling theory and legitimacy theory are rejected by the results of the first hypothesis, but are supported by the second and third hypotheses.

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