

## Factors Affecting The Company's Value Through Sustainability Reports In The Indonesia Stock Exchange

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**ABSTRAK:** The company's financial performance that demonstrates the success of the company is a matter of interest to the public. While the Sustainability Report is a non-financial report that is beginning to draw public attention today. This study aims to examine how the influence of financial performance on corporate value through Sustainability Report that can be used as a Reference for User Financial Statements in the decision of the right decision. The sample of this study are Companies listed in Indonesia Stock Exchange in 2015 - 2016. Independent variables in this research are Profitability Variables, Liquidity Variables, Leverage Variables measured using Financial Ratios, Mediation Variables in this study is Sustainability Report measured by using Index Disclosures derived from the Global Initiative Reporting (GRI) and Dependent Variables are Corporate Values measured using Tobins'Q. This study uses secondary data obtained at Indonesia Stock Exchange. The results of this study indicate that net profit margin, current ratio and leverage (X) have no significant effect on both sustainability reporting (Z) and the dependent variable of firm value (Y). The results of this study also proves that only the sustainability reporting (Z) Intervening variable has significant effect on the dependent variable of firm value (Y).

**KATA KUNCI:** *profitability, liquidity, leverage, sustainability report and corporate value*

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### INTRODUCTION

The financial statements published by the company are a reflection of the company's financial performance. The financial report is an important information mean or media for stakeholders. With the issuance of financial statements can be obtained various kinds of information about the company's performance and corporate activities. Information in the company's financial statements is a fundamental requirement for investors and potential investors to make investment decisions. The existence of complete, accurate, and timely information allows investors to make rational decisions so that information obtained in accordance with the expected. One of the information that concerns investors today is information about the company's sustainability report.

Investors can make measurements on financial and non-financial performance to know the value of the company to be invested. Measurement of financial performance becomes a fundamental aspect for investors to invest because it can reflect the real condition of the company. According to Ganto, et al. (2008), the good financial performance of a company is the main consideration of investors in making investment decisions. Financial performance can increase sustainably if the company is applying the right business strategy. Improved financial performance is expected to increase the value of the company, where the higher the financial performance, the higher the value of the company.

Today's business world demands companies to balance the achievement of economic performance (profit), social performance (people), and environmental performance (planet) or called triple bottom-line performance. Orientation of business practices that have been on maximizing profits need to be reviewed. The orientation of pursuing profit as much as possible, in the short run will show success, but for the long term it can cause problems for the company because of resistance from society and other stakeholders (Lako, 2010: 55).

Triple bottom-line performance shows that in addition to paying attention to financial performance, companies also need to pay attention to social responsibility. In essence the environment and society are the

foundation and the main pillar in business that should get serious attention of the company and become the focus in accounting reporting. Pressure from various parties forces companies to accept responsibility for the impact of business activities on society. Thus the responsibility of the company is not limited to shareholders or creditors only.

Several studies have been conducted to examine the relationship between financial performance of the Sustainability Report, but the results obtained vary. Suwardi et al. (2010) in his research stated that the issue of Sustainability Report is relatively new in Indonesia and most investors have a low perception of it. In addition, most investors are oriented towards short-term performance, while the Sustainability Report is considered to have an effect on medium- and long-term performance.

Based on background and problem formulation, the purpose of this research is

1. To test and analyze the effect of the Company's Financial Performance on Sustainable Report on companies listed in Indonesia Stock Exchange in 2015 - 2016.
2. To test and analyze the effect of Financial Performance on Corporate Value on companies listed in Indonesia Stock Exchange in 2015 - 2016.
3. To test and analyze the effect of the Company's Sustainability Report on Corporate Value on companies listed in Indonesia Stock Exchange in 2015 - 2016.
4. To test and analyze the effect of the Company's Financial Performance has an effect on the Company Value through Sustainability Report on companies listed in Indonesia Stock Exchange year.

## LITERATURE REVIEW

### Financial performance

Measurement of financial performance is useful for stakeholders to determine the level of efficiency and success of the company's operations, to control whether the company achieves its objectives, to find the reason if the company does not achieve its objectives, to control the company's operations, and create future plans of the company (Gumus and Celikkol, 2011). Measurement of financial performance is based on financial data in the company's financial statements. According to Indriana, et al. (2008), financial performance can be measured from financial ratios classified as follows:

1. Ratio of liquidity, this ratio is used to measure the ability of companies to meet short-term financial obligations.
2. Leverage ratio, used to measure the company's ability to repay debt if at any time the company is liquidated.
3. Activity ratio, used to measure the company's ability to use available funds reflected in its capital turnover.
4. Profitability ratio, used to measure the company's ability to generate profit.

### Signaling Theory

Signalling theory emphasizes the importance of information released by firms on investment decisions outside parties. Information is an important element for investors and business people because information essentially presents information, notes or descriptions for both the past, present and future circumstances for the survival of a company and how its market effects. Complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool to make investment decisions. Sharpe (1997: 211) and Ivana (2005: 16), the announcement of accounting information gives a signal that the company has good prospects in the future (good news) so that investors are interested in trading stocks, thus the market will react as reflected by changes in stock trading volume.

### Theory of Legitimacy

Legitimacy is a potential benefit or resource for the company to survive (Sari, 2012). Hidayati and Murni (2009), the company seeks good recognition from investors, creditors, consumers, government, and the surrounding community, so as to maintain its survival in the following ways:

1. Recognition from investors is obtained by the company by increasing the stock return.
2. Recognition of creditors obtained by the company by increasing the company's ability to return the debt.

3. Recognition from consumers obtained by the company by improving the quality of products and services.
4. Acknowledgment from the government is obtained by the company by complying with applicable regulations.
5. Recognition from the public is obtained by the company by conducting social responsibility activities.

#### The Firm Value

Corporate value is an important concept for investors as it becomes an indicator for the market to assess the company as a whole. The value of a company can also be interpreted as an assessment of the investor's level of success in managing its resources. Company value can increase if the institution is able to be an effective monitoring tool (Gunawan and Utami, 2008). According to Darminto (2010), the value of the company shows the value of various assets owned by the company including the securities issued and for the company go public, the value of the company can be reflected through its share price. Increased corporate value will contribute to long-term growth for the company (Sukasih and Susilawati, 2011). Kusumajaya (2011), there are quantitative variables used to estimate firm value, that is:

1. The book value represents the total shareholders' equity divided by the number of shares outstanding.
2. Market value is an approach to estimate the net value of the firm. If the shares of a company are traded in a securities exchange, then the value of a company can be measured based on its market value.
3. Appraisal value, obtained from independent appraiser company.
4. The cash flow value, used when appraising mergers or acquisitions to estimate net cash flows.

#### Sustainability Reporting In Company Financial Statements

Sustainability reporting is described as a "practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance [1]. The Sustainability Report has grown considerably, in line with the recognition emerging from the concept of sustainability as a challenge in the 21st century. In recent years, there has been an increasing number of companies that publish sustainability reports (Kolk in Brosowski et al, 2004). Since 1992 to 2015 there has been a very significant increase of companies reporting sustainability. Below is a picture of Company Growth that publishes Sustainability Report.

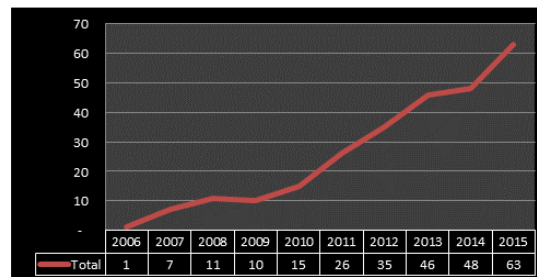
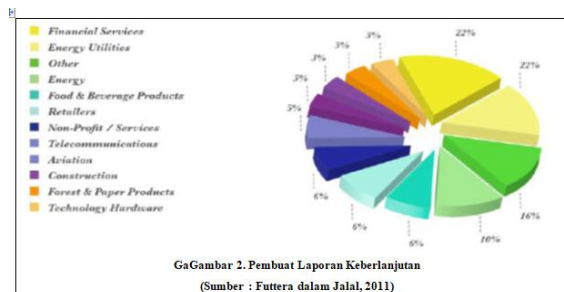


Figure 1 : Growth The number of organizations reporting on sustainability reports

According to Futtera in Jalal (2011), non-energy mining sector is not the first sector in the company of Sustainability Report Producer, but Financial Services and Energy Utilities are 22% each. The following figure will show the Sustainability Reporter data.



## Hypothesis

Profitability ratios measure the ability of corporate executives to create profit levels both in the form of corporate profits and the economic value of sales, net assets of companies and shareholders equity (Hendra S. Raharjaputra, 2009: 205). Moreover the level of profitability can show how well the management of the company, therefore the higher the profitability of a company then tend to be more extensive disclosure of sustainability report.

H1: Profitability Ratio affects disclosure of sustainability report.

Firms with The Liquidity Ratio reflects the company's ability to meet its short-term liabilities to its short-term creditors. Short-term creditors pay more attention to the prospect of the company in paying short-term liabilities so that it is more interested in cash flow and working capital management than how much profit the company reported. The greater the working capital, the greater the degree of certainty that short-term debt will be repaid.

H2: Liquidity ratio affects the sustainability report.

High leverage rates tend to want to report higher earnings in order to reduce the likelihood of companies violating debt agreements. Belkaoui and Karpik (1989) in Anggraini (2006) suggest that the higher the leverage level (the debt / equity ratio) the more likely the company will violate the credit agreement so that the company will report higher earnings now.

H3: Leverage ratio affects the sustainability report.

The level of profitability can show how well the management of the company, therefore the higher the profitability of a company then tend to be more extensive disclosure sustainability report.

H4: Profitability Ratio affects Corporate Value

The Liquidity Ratio reflects the company's ability to meet its short-term liabilities to its short-term creditors. Short-term creditors pay more attention to the prospect of the company in paying short-term liabilities so that it is more interested in cash flow and working capital management than how much profit the company reported. The greater the working capital, the greater the degree of certainty that short-term debt will be repaid.

H5: Liquidity Ratio affects Corporate Value

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H6: Leverage Ratio affects Company Value.

Corporate value is an important concept for investors as it becomes an indicator for the market to assess the company as a whole. The value of a company can also be interpreted as an assessment of the investor's level of success in managing its resources. In recent years, there has been an increasing number of companies that publish sustainability reports (Kolk in Brosowski et al, 2004). From 1992 to 2010 there has been a very significant increase in companies reporting sustainability.

H7: Sustainability report affects company value.

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H8: Profitability, Liquidity and Leverage Ratios affect the Values report through Sustainability Reporting.

**RESEARCH METHODS**

Research design.

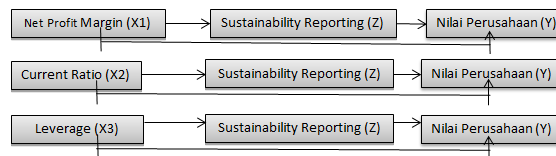
This research is a comparative causal research with problem characteristic of causal relationship between two or more variables. This study aims to analyze the influence of independent variables to the dependent variable. Independent variables used in the research are profitability ratio, liquidity ratio, leverage ratio, and disclosure of sustainability report, while the dependent variable is the disclosure of sustainability report and firm value.

Data source

The secondary data used in this study comes from the Indonesia Stock Exchange which was obtained from the Central Office of IDX located on Jl. Panglima Sudirman Jakarta. The secondary data required financial statements and annual report of the company in 2016.

Hypothesis Analysis and Testing Technique

This research model:



Hypothesis test in this research use path analysis in the form of 3 regression equation (Baron & Kenny, 1986) for each independent variable that is:

1. Regression equation influence net profit margin, current ratio and leverage (X) to sustainability reporting (Z) are:

$$Z = a + b.X + e$$

2. Regression equation direct influence net profit margin, current ratio and leverage (X) to firm value (Y) is:

$$Y = a + b.X + e$$

3. Regression equation influence net profit margin (X) and sustainability reporting (Z), current ratio (X) and sustainability reporting (Z) and leverage (X) and sustainability reporting (Z) to firm value (Y) are:

$$Y = a + b1.X + b2.Z + e$$

**DISCUSSION**

*path analysis Result :*

Tabel  
Path Analysis

Step	Independen Variable	Dependen Variable	Koefisien Regress (b)	Signifikansi
1	Net Profit Margin (X1)	Sustainability Reporting (Z)	-0,002	0,342
	Current Ratio (X2)	Sustainability Reporting (Z)	0,000	0,603
	Leverage (X3)	Sustainability Reporting (Z)	0,007	0,876
2	Net Profit Margin (X1)	Firm Value (Y)	-8,343E12	0,694
	Current Ratio (X2)	Firm Value (Y)	-4,670E10	0,769
	Leverage (X3)	Firm Value (Y)	-2,177E13	0,351
3	Net Profit Margin	Firm Value (Y)	-7,373E12	0,701
	Sustainability Reporting	Firm Value (Y)	1,899E14	0,040
	Current Ratio	Firm Value (Y)	-5,678E10	0,668
	Sustainability Reporting	Firm Value (Y)	1,926E14	0,037
	Leverage	Firm Value (Y)	-2,314E13	0,517
	Sustainability Reporting	Firm Value (Y)	1,913E14	0,038

The result of regression of phase 1 is the influence of each independent variable (X) to the mediation variable (Z) or the influence of net profit margin, current ratio and leverage (X) against sustainability reporting (Z) was not significant, so did not meet the requirement of stage 1.

The result of regression of phase 2 is the influence of each independent variable (X) on the dependent variable (Y) or the influence of net profit margin, current ratio and leverage (X) to firm value (Y) is not significant, so do not meet the requirement of phase 2.

The result of regression stage 3 is the influence of net profit margin (X) and sustainability reporting (Z), current ratio (X) and sustainability reporting (Z) and leverage (X) and sustainability reporting (Z) to firm value (Y) Significant effect is only the effect of sustainability reporting (Z) on firm value (Y) with significance values of 0.040, 0.037 and 0.038 respectively (all smaller than 5%). Thus it can be said that net profit margin, current ratio and leverage (X) have no direct effect on firm value (Y), but through sustainability reporting (Z) mediation variable.

The results of this study indicate that net profit margin, current ratio and leverage (X) have no significant effect on both sustainability reporting (Z) and the dependent variable of firm value (Y). The result of this research also proves that only the sustainability reporting (Z) mediation variable has significant effect on the dependent variable of firm value (Y). Thus this study does not support the hypothesis H1 to H7 and only supports the hypothesis H8 is the influence of Profitability Ratios, Liquidity and Leverage affect the Company Value report through Sustainable Reporting. The influence of sustainability reporting on firm value showed positive influence seen from regression coefficient respectively that is 1,899E14, 1,926E14 and 1,913E14. Thus it can be interpreted that if good reporting sustainability (high), then the value of the company is also good (high) and vice versa if sustainability reporting ugly (low), then the company value is also ugly (low).

## CONCLUSION

Corporate value is an important concept for investors as it becomes an indicator for the market to assess the company as a whole. The value of a company can also be interpreted as an assessment of the investor's level of success in managing its resources. Company value can increase if the institution is able to be an effective monitoring tool (Gunawan and Utami, 2008). According to Darminto (2010), the value of the company shows the value of various assets owned by the company including the securities issued and for the company go public, the value of the company can be reflected through its share price. Increased corporate value will contribute to long-term growth for the company (Sukasih and Susilawati, 2011).

The Company will strive to improve financial performance and simultaneously improve the completeness of sustainability reports to be responded well by the public so that the company's stock price increases which will eventually increase the company's value.

## REFERENCES

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