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Investors' Perspectives on the Financial and Non-Financial Reports

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***Abstract*—Reporting both financial and non-financial reports is believed as a positive way to attract investors because investor decisions do not only depend on financial information factors in making their investment decisions. Many non-financial factors might increase firm value, such as disclosure of enterprise risk management, disclosure of intellectual capital, disclosure of corporate social responsibility. This paper aims to analyze whether the customer goods industry's economic and non-economy disclosure impacts investor decision-making. Using multiple regression method in the explanatory research with quantitative approach, this study revealed that: (1) Profitability has a significant influence on Firm Value; (2) Dividend Policy does not have a significant influence on Firm Value; (3) Enterprise Risk Management Disclosures has a significant influence on Firm Value; (4) Intellectual Capital Disclosure has a significant influence on Firm Value; (5) Corporate Social Responsibility Disclosure has a significant influence on Firm Value. The combination of the financial and non-financial reports has significantly attracted investors.**

Keywords—non-financial report, dividend policy, enterprise risk management disclosure, intellectual capital, CSR

I. INTRODUCTION

Consumer goods companies' performance has declined in recent years, so this makes the company compete to attract investors' attention by publishing reports or information that can convince investors. Reporting non-financial reports are believed as a positive way to attract investors because investor decisions do not only depend on financial information factors in making their investment decisions [1]. Many non-financial factors might influence an increase in firm value, such as disclosure of enterprise risk management (ERM), disclosure of intellectual capital (IC), disclosure of corporate social responsibility (CSR).

One of the non-financial information needed by investors is information about its risk profile and risk management. It is important for management to implement a well-structured ERM system, which can face challenges and so that the company can be sustainable. Outside parties of the company or investors tend to find it difficult to assess the company's strengths and risks, so it needs to disclose the risk itself to outside parties. Disclosure of ERM also provides a signal of its commitment to managing the risk [2]. The disclosure of risks that must be considered by the company and how the relationship and management of human capital, capital structure, and customer capital in a company are also considered important.

In the current era of globalization, there have been changes in various aspects, especially in the rapid development of science, innovation, and technology, and with the development of free trade in world businesses such as the Asia-Pacific Economic Cooperation, North America Free Trade Agreement, ASEAN Free Trade Area, and ASEAN Economic Community. Companies that used to rely on labor now began to turn to the field of knowledge and made their companies knowledge-based companies [3].

Knowledge assets are essential components of business and resources that are maintained to be obtained and maintain a competitive advantage. Everything that can provide a competitive advantage for companies in the form of intangible resources such as knowledge, financial information, and human resource experience will produce added value for IC [4]. Providing a high level of knowledge management, human resources, and physical assets improve the company's intellectual company and enhance the company's ability to compete their competitors. Disclosure of IC has an impact on increasing transparency, legitimacy status, and company reputation [5]. Disclosure of IC can be additional information for stakeholders about how well the company manages its IC so that investors can be sure to provide funds to this company that can affect the company's performance.

Non-financial news that must also be reported by the company is the disclosure of CSR. CSR is a form of responsibility of firms in repairing social problems and environmental damage which are caused by the company's business operation activities. Applying CSR, the company's image can be better in the community, where this will increase investor confidence in investing in the company. CSR disclosure is being an important information for report users to analyze the extent of attention of social responsibility in conducting business. It is hoped that this will be able to provide a signal and increase the firm value in the eyes of investors. Law of the Republic of Indonesia Number 40/2007 concerning

Limited Liability Companies which contains regulations that companies whose activities are related to natural resources must disclose CSR in their annual reports.

Consumer goods companies are companies whose activities use natural resources and have a direct impact on the environment, so as a form of responsibility, based on the provisions of Article 66 paragraph 2c, the firm has to enclose and report its implementation of Social and Environmental Responsibility in their Annual Report. In 2018, consumer goods industrial sector had a slowdown growth in their performance. As a result, they worked hard to attract investors by raising profitability, dividend policies, disclosure of ERM, disclosure of IC and disclosure of corporate social responsibility. By then, the investors increase their confidence to invest in the companies and increase stock prices and firm value as well.

Based on the explanation above, this paper has a purpose to analyze whether the economy and non-economy disclosure of customer goods industry impact the investor decision making. Previous studies had been identified the impact of financial and non-financial performance to the investor decision as a separate aspect. However, there is a less evidence which investigate the impact of both aspects together on the investor decision making.

II. Related Work

The Signaling theory emphasizes that reporting information related to company performance is potentially provide a signal to investors and enhance the company' value [6]. According to Iswajuni et al. [7], when a company shows an increased profit for years, it leads to the increase of its share price. Increased profitability shows that companies able to maintain financial performance stability. The higher the profit obtained, the shareholders have a perception that the company has made efficiency in using its assets, so that it can generate profits [8]. High profitability indicates how company manage their resources, attract investors positively which leads to the increase of the company's value [9]. Based on the theory and results of previous research, the hypothesis of this research is as follows:

H_1: There is a positive influence of the profitability on firm value

In the bird in the hand theory, dividend policy has a positive effect on firm value. The announcement of dividend tends to lead the increase of company's share price. One reason for the market's reaction to information about dividend announcements is that shareholders prefer current income that is dividends [10]. The policy on dividend payments is a very important decision in a company. Where investors are more likely to invest their funds in companies that distribute dividends consistently and in companies that distribute large amounts of dividends. Dividends are the motivation of investors to invest funds in the capital market. The distribution of dividends will increase share prices and lead to rising firm value [11]. According to the bird in hand theory and previous studies, the hypotheses of this research is as follows:

H_2: There is a positive influence of the dividend policy on firm value.

The Signaling theory explains the importance of providing information to external parties both financial as well as non-financial information. According to Hoyt and Liebenberg [2] non-financial report can be in the form of ERM reports made by company management regarding company risk, whereby disclosing the ERM also give a signal of the company's commitment to risk management. When a company can manage its risks, investors will not hesitate to invest their capital. Companies that can manage risk are a positive sign for investors. Therefore, the disclosure of company risk is very necessary for companies and external parties such as investors as information on the company's situation. The results of research show that the ERM disclosure bring a significant impact on the firm value [12,13]. Therefore, based on the signaling theory and previous studies, the hypotheses of this research is:

H_3: There is a positive influence of the enterprise risk management disclosure on firm value.

Disclosure of IC as a disclosure of a set of intangible assets in value creation because of its ability to drive organizational performance. According to Devi et al [12], Investors have confidence that the more IC disclosure items provided by the company indicate that the more IC ownership managed in the company, the easier it will be for the company to achieve a maximum performance. This conviction drives investors to invest more to the company which leads on the market value. The results of research show that disclosing IC information to the public potentially provide a good result on the company's performance [14,15]. Therefore, the hypothesis is built as follows:

H_4: There is a positive influence of the intellectual capital disclosure on firm value.

The stakeholder theory describes that paying attention on the stakeholders ie. shareholder, creditors, consumers, suppliers, employees, government are important since they are parties that influence and are influenced either directly or indirectly to the company [16]. According to Arifani [6], the level of CSR disclosure is the company's partisanship to the community. As a result, the community will be able to choose a quality product based on the quality and their corporate governance. CSR disclosure activities themselves are part of good corporate governance. When customers have a positive assessment of the company, they will be loyal to the products produced. As a result, this will be able to improve the company's image reflected through stock prices that will increase. Companies with good environmental performance will be responded positively by investors through an increase in share prices and lead to an increase in the value of the company.

The results of research conducted by Arifani [6] and Rahmasari [15] show that CSR disclosure has a positive effect on firm value. Then, Damayanti [17] mentioned that conducting environmental and social performance enhances the Indonesian Listed companies' ROA and Tobin's Q. Based on the stakeholder theory and the previous studies, the hypothesis is:

H_5: There is a positive influence of the disclosure of corporate social responsibility disclosure on firm value.

The signaling theory explores the importance of providing financial and non-financial information to external parties. Information disclosed by companies in the form of financial information and non-financial information that can be seen in the annual report can be used as a signal to market participants and will cause transactions between sellers and buyers. The firm value can be formed when there is a transaction between a seller and a buyer in the capital market which is reflected in the price of the shares, this stock price is considered to reflect the true value of the company's assets. This investment opportunity will generate a positive signal about the company's development and performance in the future, and to maximize the value of the company [17].

Previous studies found that the performance of company's economy is derived from several factors such as its profitability [6,13], company's policy [10], disclosure of ERM [13,15], disclosure IC [12,15] as well as the disclosure of CSR [6,15]. Therefore, the hypothesis is:

H_6: There is a simultaneous influence of Profitability, Dividend Policy, Disclosure of ERM, Disclosure of IC and Disclosure of CSR to Firm Value

III. Methodology

This research used an explanatory research design with a quantitative approach. The population of this study was 53 Indonesian consumer goods sector listed companies which has been published an annual report for the 2015-2018 period. Using a purposive sampling method, that were companies that get a positive profit distributed dividend during study, there were 9 companies selected and 36-unit analysis involved. The data was analysed using multiple regression method.

IV. Results and Discussion

After satisfied all requirements of classical assumption test, that are normality test, autocorrelation test, multicollinearity test, heteroscedasticity test, then, the multiple linear regression analysis is conducted. The regression equation model that will be developed can be formulated as follows:

$$Y = \alpha + \beta_1 \text{ ROA } (X_1) + \beta_2 \text{ DPR } (X_2) + \beta_3 \text{ ERMDI } (X_3) + \beta_4 \text{ ICDI} + \beta_5 \text{ CSRDI} + \varepsilon \qquad (1)$$

Description:

Y : TOBIN'S Q
α : Constant
β_1- β_5 : Regression Coefficients of each Independent Variable
ROA (X_1) : Return on Assets
DPR (X_2) : Dividend Pay Ratio
ERMDI (X_3) : Enterprise Risk Management Disclosure Index
ICDI (X_4) : Intellectual Capital Disclosure Index
CSRDI (X_5) : Corporate Social Responsibility Disclosure Index
ε : Error

TABLE I. OPERASIONAL VARIABLE DEFINITION

Variable Name	Formula
Firm Value (Y)	Tobin's Q = $\frac{MVE+DEBT}{TA}$
Profitability (X_1)	ROA (X_1) = $\frac{Net\ Income}{Total\ Assets}$
Dividend Policy (X_2)	DPR (X_2) = $\frac{DPS}{EPS}$
ERM Disclosure (X_3)	ERMDI (X_3) = $\frac{\Sigma XijDitem}{\Sigma ijADitem}$
IC Disclosure (X_4)	ICDI (X_4) = $\frac{\Sigma XijDitem}{\Sigma ijADitem}$
CSR Disclosure (X_5)	CSRDI (X_5) = $\frac{\Sigma XijDitem}{\Sigma ijADitem}$

TABLE II. F TEST / SIMULTANEOUSLY

Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	28.117	5	5.623	13.25	0.00
Residual	12.732	30	0.424		
Total	40.849	35			

Source: Data processed, 2020

TABLE III. T-TEST / PARTIAL

Independent Variable	t	Sig.	Description
(Constant)	-2.665	0.012	
X_1	2.368	0.025	Significant
X_2	0.057	0.955	Not Significant
X_3	2.561	0.016	Significant
X_4	2.126	0.042	Significant
X_5	2.167	0.038	Significant

Source: Data processed, 2020

- The effect of Profitability on the company's economics performance can on the Table 3 above. Based on the result of the partial regression analysis between Profitability and Firm value show t test = 2.368 and t table (α = 0.05 ; db residual = 30) is 2,042. Because t test > t table which 2,368 > 2,042 or the sig t (0,025) < α = 0.05. This number means that an increased profitability will bring a positive impact on the economy of the company. The shareholder will be more confidence investing their resources to the company and believe that they will earn more profit. As a result, the company's share price will be increased. This result supports the signaling theory and previous research conducted by Arifani [6], Utami [13] and Iswajuni [7].

- Based on the result of the partial regression analysis between Dividend Policy with Firm Value shows t test = 0,057 and t table (α = 0.05 ; db residual = 30) is 2,042. Because t test < t table is 0,057 < 2,042 or the sig. t (0,955) > α = 0.05 so the influence X_2 (Dividend Policy) on Firm Value is not significant at alpha 5%. This means that Firm Value is not significantly affected by the dividend policy or by increasing the dividend policy, Firm Value will not experience an insignificant increase.

The results of this research are appropriate with the Dividend Irrelevant theory put forward by Miller and Modigliani [18] explaining that a firm's value is only based on its ability to generate revenue and manage business risk [19] The value of a company depends only on the income derived from its assets, not on income divided into dividends. This study is not supporting the previous research conducted by Rahayu and Asandimitra [10] and Esana and Darmawan [11].

- Based on the result of the partial regression analysis between ERM with Firm Value shows t test = 2,561 and t table (α = 0.05 ; db residual = 30) is 2,042. Because t test > t table is 2,561 > 2,042 or the sig. t (0,016) < α = 0.05 so the influence of ERM Disclosure on Firm Value is significant at alpha 5%. This means that Firm Value can be significantly influenced by ERM Disclosure or by increasing the ERM Disclosure, Firm Value will experience a significant increase.
- Based on the result of the partial regression analysis between IC Disclosure with Firm Value shows t test = 2,561 and t table (α = 0.05 ; db residual = 30) is 2,042. Because t test > t table is 2,561 > 2,042 or the sig. t (0,042) < α = 0.05 so the influence of IC Disclosure on Firm Value is significant at alpha 5%. This means that Firm Value can be significantly influenced by IC Disclosure. The results of this research supports the Stakeholder Theory revealed by Freeman [20] that each group or individual can influence or be influenced by the achievement of organizational goals [18]. Company has a responsibility to taking care of its stakeholders which impacted from its business operation. Disclosing more information, financial and non-financial disclosure indicates that company has already perform their responsibility to its stakeholders. IC disclosure is information about how company manage its intangible assets to support its performance, so the more information provided by company, the more confidence investors to trade shares which leads on increasing the value of the company.
- Based on the result of the partial regression analysis between CSR Disclosure with Firm Value shows t test = 2,167 and t table (α = 0.05 ; db residual = 30) is 2,042. Because t test > t table is 2,167 > 2,042 or the sig. t (0,038) < α = 0.05 so the influence of CSR Disclosure on Firm Value is significant at alpha 5%. This means that Firm Value can be significantly influenced by CSR Disclosure or by increasing the CSR Disclosure, Firm Value will experience a significant increase. The results of this research are in line with the Stakeholder Theory revealed by Freeman [20] that each group or individual can influence or be influenced by the achievement of organizational goals. To fulfill the wishes of the stakeholders, CSR can be one of the company's strategies. Performing in how company respond to the society and natural resources which impacted from the business operations indicates that the company tends to reduce the risk. This action is a good signal to the investors. The study supports the previous research conducted by Arifiani [6] and Rahmasari [15] which revealed that disclosure of CSR has a positive effect on corporate value, as well as Damayanti [17] who found that high level of environmental and social performance improve the companies' ROA and Tobin's Q in Indonesia [20].
- The results of data analysis show that simultaneous profitability (ROA), dividend policy (DPR), disclosure of corporate risk management (ERMDI), IC disclosure (ICDI) and disclosure of CSR (CSRDI) affect the value of the company (Tobin's Q). Tests carried out obtained a calculated F test is 13.250. While the F table (α = 0.05; db regression = 5: db residual = 30) is 2.534. Because F test > F table is 13,250> 2,534. Sig value F (0,000) <α = 0.05, the regression analysis model is significant. Companies with good environmental performance will be responded positively by investors through an increase in share prices. This study supports the signaling theory and the previous research by Arifiani [6] and Rahmasari [15] which revealed that disclosure of CSR has a positive effect on corporate value. This is not supported by research conducted by Darmanto [21] and Mariani et al. [22] which states that disclosure of CSR does not have a positive and significant effect on corporate value.

V. Conclusion and Future Scope

The researcher suggests that companies in the consumer goods industry sector potentially improve to manage their assets (intangible and tangible assets) efficiently which lead to increase their performance. The rise of company's financial performance is a positive signal to the investors and improve their confidence in investing their resources to the company. Disclosing information, both financial and non-financial information leads to reducing in asymmetric information between company and shareholders, therefore, the more information provided by the management, the more confidence the investors are. This study is only limited to the consumer good industry so, it is recommended to develop the study using more industrial sectors which lead to generate the result to the all-Indonesian business sectors.

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