The Effect of Sustainability Disclosure with Good Corporate Governance as a Moderating Variable on Firm Value

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Abstract. By using a cross-sectional dataset comprising companies listed on the Indonesia Stock Exchange in 2017–2021, this study aims to determine whether the implementation of good corporate governance (GCG) can strengthen the effect of the quality and quantity of sustainability disclosures on firm value. The quality and quantity of sustainability disclosure are proxied based on the calculation of the score on the Global Reporting Initiative (GRI) disclosure; the GCG variable is proxied by the number of members of the board of commissioners, the proportion of independent commissioners, and the number of audit committee meetings; and firm value is proxied by Tobins' Q variable. The results of this study are that the quality and quantity of sustainability disclosure positively and significantly impact firm value. Of the three GCG variables used, only the independent commissioner proportion moderates the effect of the quality of sustainability disclosures on firm value.

Keywords: firm value · good corporate governance · sustainability disclosure

1 Introduction

The need for sustainable development in various goods and service industries has experienced rapid development over the last 2 decades [1]. This increase in demand is caused by internal and external pressure the company feels to pay attention to sustainability. Internal pressure comes from the company's demands to use sustainability performance not only as an iterative process but also as a strategy that can be used to support company decision-making (United Nations Environment Program (UNEP), 2019). Good sustainability performance allows a company to analyze information from financial and non-financial aspects that include environmental, social, and governance in making decisions to achieve company goals. In response, companies with good and accountable financial performance and concern for the environment will build a positive image to the public, especially investors, so that it will support sustainability aspects for the company in the future.

Implementing good corporate governance, directly and indirectly, affects the quality and quantity of disclosure of sustainability reports. Research from Mahmood et al. [2]

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stated that a good corporate governance (GCG) component could increase sustainability disclosure. This is due to better GCG practices that can monitor the sustainability report process, including the elements and depth of information submitted that can be proxied by the board of commissioners and audit committee.

Disclosure of this report deserves special attention because the sustainability report can be a means for companies to inform the public of their sustainability performance. This paper is expected to contribute to the empirical literature by providing research that can answer the relationship between sustainability disclosure, GCG, and firm value. The better level of quantity and quality will be influenced by the level of GCG implementation and the company's commitment to economic, environmental, and social impacts. For this reason, this study uses the GCG aspect as a moderating variable to better explain the effect of sustainability disclosure on firm value.

2 Literature Review

The urgency for a sustainability report is increasing because of the changes in investor behavior patterns that are more concerned about sustainability. Research from Li et al. [3] stated that the level of ESG disclosure had a positive relationship with the value of a company due to increased transparency and accountability that increase stakeholders' trust. Research from Santoso et al. [4] concluded that corporate sustainability actions, especially those related to charitable activities through corporate social responsibility (CSR), could improve a company's financial performance because the company seeks to satisfy stakeholders so that they can synergize in improving the company's financial performance. In their study, Laskar & Gopal Maji [5] revealed that these two variables had a significant relationship.

Meanwhile, a research gap is found related to the effect of sustainability disclosure on company value. Research from Sampong et al. [6] concluded that disclosure of CSR information had a positive but insignificant relationship with firm value in South Africa. Meanwhile, in Germany, similar findings were also found. Research from Nguyen [7] stated that there was a negative and significant relationship between company compliance with GRI on sustainability reports and company value. It is explained that these results are in accordance with agency theory which states that sustainability activities consume company resources and will harm shareholders' value.

The company's decision to report its sustainability performance cannot be separated from the role of good corporate governance (GCG). GCG is seen as a moderating variable between the disclosure of sustainability reports and company value. Research that considers GCG as a moderating variable in the relationship between sustainability actions and firm value is still relatively rare to be found. However, a research gap was found in the existing research. Research from Fatchan & Trisnawati [8] explained that the interaction between good corporate governance and sustainability reports had no effect on firm value. In addition, research from Fiona [9] examined the effect of CSR on firm value moderated by the GCG variable that is proven GCG is able to encourage the emergence of corporate responsibility in society.

3 Variables and Methods

3.1 Quality and Quantity of Sustainability Disclosure

The quality and quantity of sustainability disclosures can be explained as the existence of a specific component of the GRI framework, which is published through a sustainability report [5]. Methods to measure the quality of sustainability disclosure is by giving a scale of 4 on the quality of sustainability disclosure. The four scales are a score of 3 in case of monetary disclosure, 2 in case of numerical disclosure, 1 in case of narrative disclosure, and 0 in case of no disclosure. Meanwhile, to obtain this quantity value, a content analysis is carried out on the sustainability report using a dummy 1 for items that are disclosed and 0 for items that are not disclosed. The numbering was based on the 2018 GRI standard which has 89 disclosure items: 17 for the economic, 32 for the environmental, and 40 for the social.

3.2 Research Design

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_6 + \beta_3 X_7 + \beta_4 X_8 + \varepsilon \ldots \tag{1}$$

$$\begin{aligned} Y = {} & \alpha + \beta_1 X_1 + \beta_2 X_3 + \beta_3 X_4 + \beta_4 X_5 + \beta_5 X_1 X_3 \\ & + \beta_6 X_1 X_4 + \beta_7 X_1 X_5 + \beta_8 X_6 + \beta_9 X_7 + \beta_{10} X_8 + \varepsilon \ldots \end{aligned} \tag{2}$$

$$Y = \alpha + \beta_1 X_2 + \beta_2 X_6 + \beta_3 X_7 + \beta_4 X_8 + \varepsilon \ldots \tag{3}$$

$$\begin{aligned} Y = {} & \alpha + \beta_1 X_2 + \beta_2 X_3 + \beta_3 X_4 + \beta_4 X_5 + \beta_5 X_2 X_3 \\ & + \beta_6 X_2 X_4 + \beta_7 X_2 X_5 + \beta_8 X_6 + \beta_9 X_7 + \beta_{10} X_8 + \varepsilon \ldots \end{aligned} \tag{4}$$

Where:
Y = Firm value proxied by Tobins' Q
X_1 = Quality of Sustainability Disclosure (SRQ)
X_2 = Quantity of Sustainability Disclosure (SRK)
X_3 = Number of the board commissioner (BSIZE)
X_4 = Proportion of independence board (BIND)
X_5 = Number of audit committee meeting in a year (ACMEET)
X_6 = Cash value relative to total asset (CASH)
X_7 = Natural logarithm of total asset (FSIZE)
X_8 = Sales growth (GROWTH) (Fig. 1)

3.3 Research Methodology

This research applies a quantitative approach to examine the relationship between the disclosure of sustainability reports and firm value moderated by the GCG variable, with a sample of companies listed in the Indonesia Stock Exchange (IDX) in 2017–2021. The data was collected from each company's annual and sustainability reports and analyzed using multiple linear regression techniques.

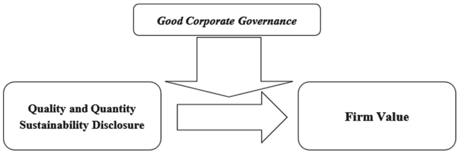

Fig. 1. Research Design

4 Results and Discussion

The sample criteria for this research were companies that have (1) been listed on the Indonesia Stock Exchange in 2017–2021; (2) published a sustainability report; (3) used Rupiah as the reporting currency; and (4) used the GRI. With the removal of outliers, this research was conducted using 364 firm-year as the sample.

In Table 1, the significance values of the SRQ and SRK are less than 5%, so this variable has a significant effect on firm value without a moderating variable. This result is caused by the period after 2020–2021; Indonesia Financial Service Authority (OJK) has issued a Circular Letter Number 16/SEOJK.04/2021, which served sustainability reports guidelines for all companies in Indonesia since 2021. Thus, companies can follow the guidelines in compiling sustainability reports so that the investor can utilize the information disclosed in the sustainability report with better comparability. This

Table 1. Table captions should be placed above the tables

	Ind.	**B**	**Sig.**		**Ind.**	**B**	**Sig.**
Model 1	(Const.)	1.694	0.039	Model 3	(Const.)	1.674	0.000
	X1	0.571	0.025		X2	0.278	0.038
	X6	0.510	0.036		X6	0.564	0.013
	X7	−0.022	0.108		X7	−0.021	0.036
	X8	0.002	0.039		X8	0.002	0.084
Model 2	(Const.)	1.976	0.008	Model 4	(Const.)	1.126	0.000
	X1	−0.39	0.424		X2	0.834	0.152
	X3	0.041	0.168		X3	0.001	0.493
	X4	−0.278	0.322		X4	0.611	0.096
	X5	−0.006	0.202		X5	−0.008	0.062
	X1*X3	−0.314	0.098		X2*X3	−0.01	0.460
	X1*X4	7.878	0.018		X2*X4	−1.232	0.215
	X1*X5	−0.009	0.406		X2*X5	0.007	0.313
	X6	1.31	0.000		X6	0.981	0.001
	X7	−0.034	0.085		X7	−0.009	0.325
	X8	0.001	0.283		X8	0.001	0.180

result is in line with Li et al. [3]; Qureshi et al. [10]; and Laskar & Gopal Maji [5] research.

For the GCG variable moderating SRQ, which is proxied by BSIZE, BIND, and ACMEET, there is no significant variable with each significance value of 0.098; 0.018; and 0.406. Meanwhile, the SRQ variable moderated by the GCG variable, especially BIND, has a significant positive effect on firm value. This independent board of commissioners has and can provide different insights from management regarding the level of detail and quality of sustainability disclosures. For example, an independent board of commissioners from community leaders can be a channel for companies to obtain information about community needs as stakeholders related to sustainability. Then, the company's response to this information is conveyed through the quality and quantity of sustainability report disclosures. This result is in line with Wang [11]; Md Abdul Kaimun [12]; and Fiona [9] research.

Meanwhile, the SRQ variable moderated by BSIZE and ACMEET has no significant effect on firm value. Furthermore, on the control variable, the CASH variable has a significant positive effect on firm value while the FSIZE and GROWTH variables have no significant value. A significant CASH value indicates that cash can be a proxy for liquidity and has a significant positive effect on Tobins' Q.

On the other hand, for the GCG variables moderating SRK, the BSIZE, BIND, and ACMEET variables as proxies for the implementation of GCG in the company indicate that all variables do not have a significant effect on firm value. In the moderating variable between SRK and BSIZE, BIND, and ACMEET, it is found that all variables have no significant effect. Furthermore, on the control variable, only the CASH variable has a significant positive effect on firm value and the FSIZE and GROWTH variables have no significant effect.

In addition, based on the results of the control variables, it is found that the CASH value has a significant and positive effect on firm value in all models. This is because companies with a large CASH value have more flexible resources to increase firm value, according to slack resource theory. Some of the efforts that can be made are investing in technology that can support operational performance or the company's sustainability performance. Research from Tangngisalu & Atestasi [13] and Zurriah [14] revealed that the excess cash value in a company had a positive and significant effect on firm value.

5 Conclusion

Based on the study's results, the variables SRQ and SRK have a positive and significant influence on firm value proxied by the value of Tobin's Q. These findings indicate that investors have considered sustainability aspects in making their investment decisions. This behavior is in line with stakeholder theory, where companies can optimize the value received by investors through sustainability reports. GCG has not been able to strengthen the effect of sustainability disclosure on company value. The only GCG able to strengthen the effect is BIND, which moderates the variable quality of sustainability disclosure, and strengthens the significant influence on firm value. This result was obtained because monitoring sustainability performance is still not part of the role of the board of commissioners and audit committees for companies in Indonesia. Meanwhile, in all models used, the CASH variable can consistently have a positive and significant effect on firm value, which indicates that the greater the resources owned by the company, the greater the company's ability to have good corporate value.

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