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Systematic Review: The Effectivity of Sustainability Reporting on Firm Value

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Abstract

As the company's development continues to increase, companies are expected to disclose reporting on the impactof ESG. To maintain the sustainability of the ecosystem, a sustainability report is needed. This study aims to empirically testthe effectiveness of sustainability reporting on firm value by using a literature review on the Scopus journal index with identified 200 articles Scopus published between 2015-2022. Then it evaluated by using PRISMA based on predetermined criteria. The results showed various findings. Sustainability reporting has negative impact in social and environment in banking sector but has positive significant in manufacturing sector and tourism sector.

Keywords: Sustainability reporting; firm value; systematic review

1. Introduction

Companies that *go public* must be able to demonstrate the quality of the company's performance. Basically, the company aims to optimize the firm value. Firm value is very important because a high firm valueindicates the high prosperity of its shareholders. The higher the firm value, will higher the shareholder value. As firm value will be reflected in its stock price [1], [2].The company's goals can be achieved through careful and precise implementation of the financial management function, bearing in mind that every financial decision taken will affect other financial decisions that will impact the firm's value [1]. Not only through financial performance, in this current era, investors will be more sensitive in assessing company portfolios in order to attract investors to invest. In order to realize shareholder welfare as reflected in share prices which are formedfrom the capital market, several alternative policies can be implemented to gain sympathy from market players.One of them is financial policy, such as dividend policy, investment policy, and leverage policy.

The tendency of investors to invest their capital will be influenced by *going concern*. The going concernassumption explains that a business entity is considered to have the ability to survive in the long term without short-term liquidation. Going concern is a condition that is realized due to the influence of company value. Prena and Diersa found in their research that firm value has a positive effect on business continuity. This meansthat the company is one of the factor requirements for business value [3].

Business issues are certainly inseparable from forms of social responsibility which can be seen from thesustainability reports and social responsibility performance of each company itself. The issue of corporate sustainability has grown in recent years [4]. Over the decades, more and more companies have moved forward in monitoring the development of their activities regarding social and environmental impacts, so that the practice of *sustainability reporting* (SR) has become a mainstream practice [5], [6]. In the concept of sustainable development, companies are no longer only faced with profits but rather responsibilities that are based on the TBL (*Triple Bottom Line*), namely the synergy of the three elements which include, economic, social and environmental. With growing and increasing companies, they are required to disclose information on the impact of ESG (*economy, social and governance*). This information then presented in the form of a separate report from the company's financial statements, namely sustainability reporting. In the last two decades, there have been many sustainability reporting guidelines for use by multinational enterprises (MNEs) where the globally accepted guidelines are guidelines issued by the GRI (*General Reporting Initiative*).

Various empirical studies on the application of sustainable financial reporting to firm value generally yield positive results. Loh *et al*. reported the positive impact of sustainability reporting on firm value in Singapore [7]. Kuzey & Uyar showed a positive response from various stakeholders on reporting environmental aspects for manufacturing companies in Turkey [8]. Then, Dewi found that disclosure of sustainability reports had a 54.5% effect on firm value [9]. The existence of a sustainability report form is a positive signal for investorsto run a business related to the continuation of their business. This is supported by the signaling theory that theexistence of a signal is additional information that is useful in decision making [10]. However, in the other hand, Sejati & Prastiwi and Gunawan & Mayangsari showed different results. In their researches, sustainability reporting had no effect on firm value [11],[12]. The reason is not significant effect of disclosure of sustainability report on firm value caused by investors are more interested in buying shares which are generate profits and ignored disclosure of sustainability reports.

Based on that background, this study aims to empirically test the effectiveness of sustainability reportingon firm value by using a literature review on the Scopus journal index. Of course, there are a lot of various disclosure effects. This is what makes us to review the sustainability reporting on firm value.

2. Theoretical Framework

Sustainability reporting is made on a voluntary basis. Therefore, the incentives to voluntarily disclose information on sustainability or even the incentives to publish the assurance report on this kind of informationcan be framed in the context of signaling theory [13]. Next, we present existing literature on the areas of sustainability reporting and firm value. Firstly, we should look into the concept of firm value or sustainability reporting. Firm value is the investor's perception of the company associated with the stock price. Abdul & Noerirawan defines firm values as a condition that has been achieved by the company as an illustration of publictrust in the company after going through a process of activities that began since the founding of the company until now [14]. The presence of investment decision signals is also a form of corporate social responsibility. Disclosure of information by a company is the main foundation for investors to support safe and profitable investment decision making. The information needed by investors is not only about financial information but also non-financial information. Signaling theory deals with the information released by companies affecting investors' decision. Social responsibility policies and practices as well as a sustainability reporting are a way for companies to increase their performance and reputation with providing positive signals to investor [15].

The theory that underlies the concept of sustainability reporting is stakeholder theory. The definition ofstakeholders are all parties, internal and external, that can influence or be influenced by the company either directly or indirectly [16]. The success of a successful company's business in fostering relationships between companies and stakeholders. Further, stakeholder theory states that the company is not entity that only operatesfor its own interests, but must provide benefits to all stakeholders (shareholders, creditors, consumers, suppliers, governments, public, analysts, and other parties) [17]. This stakeholder group be considered for company management in disclosing or no information in the report the company.

Several studies that examine the effect of sustainability reporting on firm value show different results, which creates a research gap. Firm value is seen from how far investors respond to the company's shares. Investors will certainly tend to choose companies that are not only profit-oriented but also socially and environmentally responsible for sustainable development. Astuti and Juwenah explain that with the company'seconomic, social and environmental responsibilities, the company will play a role in the implementation of GCG (*Good Corporate Governance*) [18]. As environmental damage occurs, such as climate change and global warming, the public and investors need information about company activities in managing the environment, sothey can ensure that company activities do not harm or damage the environment. This reporting is disclosed inthe company's annual report or in a separate report for non-financial activities. This means that sustainability isan effort to preserve natural resources for the future [19].

3. Research Method

This study was conducted using a systematic review method based on PRISMA guidelines (Preferred Reporting Items for Systematic Review and Meta Analysis). In this systematic review study, a total of 200 articles were collected in the Scopus Index journals published in 2015 to 2022. The criteria used are papers that use sustainability reporting with three aspects, economic, environmental and social. Search articles by using the keywords “Sustainability Reporting” and “Firm Value”. Each article obtained will be assessed for eligibility according to the inclusion criteria. The research selected was quantitative study and empirical analysis with Tobin's Q.

Quality Assessment

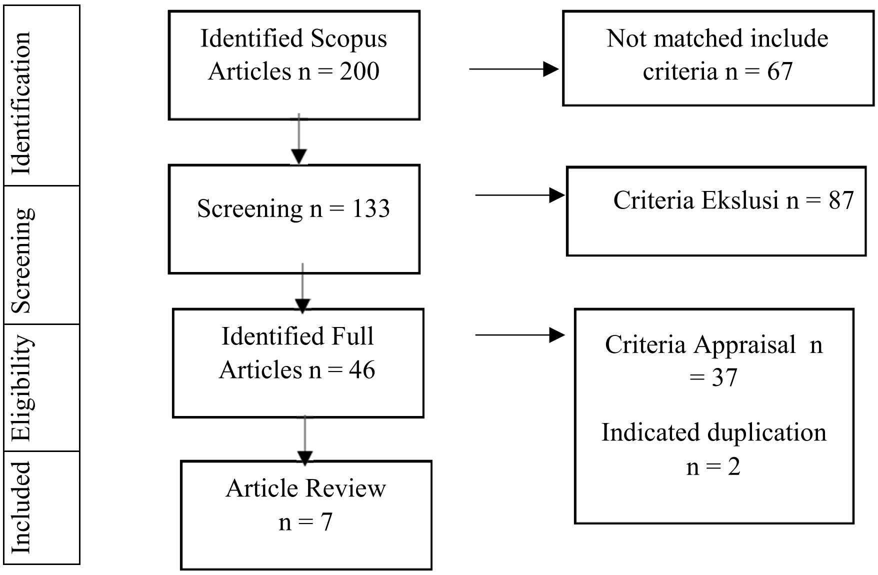

Figure 1. Assesment Research

4. Result and Discussion

Table 1. describes the results of analysis that had been assessed for eligibility. Research which conducted by Basuki showed that sustainability reporting has a negative effect on firm value but not significant [20]. According to Javeed and Lefen, investor think sustainability reporting only increases costs if the company’s goals are for charity, or supporting social development programs, thereby reducing profitability, which ultimately reduces the firm value [21]. This result does not support the research Abdelfattah & Aboud [22]; Adel et.al, [23]; Laskar [24]; Laskar & Maji [25]; Michelon [15]; Mishra & Suar [26] that companies with better voluntary disclosure have a better image, both from the public and having a greater stock return. On the contrary with Buallay which is finding that sustainability reporting positively affected on firm value in manufacturing sectorbut negative affect in banking sector [27]. ESG in manufacturing sector is related more to the firms’ processes and how they interact with environmental issue, while ESG in banking sector is related to the social where banks seek to build supporting social base that contribute to the future sustainable business. This finding also same with in tourism sector that there is a significant relationship between ESG and firm value which representative by market performance (TQ) [28].

These studies regard conflicting results as regards the influence of ESG disclosures on firm value. For example, Peiris and Evans find that ESG disclosure has positive impact on firm value [29]. Horvathova [30] and McWilliams and Siegel [31] find a non-significant association between ESG performance disclosures and financial performance. On the other hand, Dhaliwal et.al [32] and Brammer et.al [33] find a negative relationship between ESG and a company’s financial performance. Contradict with study by Jadoon et.al find that the findings support the economic benefits of firm value of firm listed in the ESG index compared to EGX100. Firms with higher ranks in the ESG index have a higher firm value, as measured by Tobin's Q [34].

Empirical results from Buallay findings that there is significant positive impact of ESG on the performance in European banks [35]. However, the relationship disclosures vary if measured individually. The environmental disclosure found that positive affect with ROA and TQ. Whereas, the CSR is negatively affectswith ROA, ROE and TQ.

Table 1. Measurement of Firm Value

Study	Research Design	Sample	Measurements
Buallay *et.al*, 2020 [28]	Quantitative	1375 observations in 37 different countries for ten years (2008-2017)	ESG Score, ROA, ROE, and TQ
Husnaini dan Basuki, 2020 [20]	Quantitative	359 company organizations in 5 ASEAN countries from 2014-2017	TQ, ACGS item, GRI-G4 item, Natural logarithm,and age of company
Buallay, 2018 [35]	Quantitative	235 banks for ten years (2007-2016)	ESG Score, ROA, ROE, and TQ
Buallay et.al, 2019 [27]	Quantitative	932 manufactured and 530 banks listed on 80 countries from 2008 to 2017	ESG Score, ROA, ROE, and TQ
Buallay et.al, 2022 [36]	Quantitative	59 banks on Stock Exchange of MENA countries over a period 2008 to 2017	ESG, ROA, ROE, and TQ
Aboud & Diab, 2021 [37]	Quantitative	227 firms listed and ranked in the Egyptian Corporate Responsibility Index over nine years (2007 to 2016)	TQ, ESG, ROA, Size, Leverage, CapTa, and EGX Listing
Buallay, 2019 [38]	Quantitative	342 financial institutions within 20 countries top achiever SDG for 10 years (2007-2016)	ESG Score, ROA, ROE, and TQ

Source: processed data, 2023

Next, the disclosure of non-financial information (ESG) shows significant negative impact of such information on a bank's market value. These findings show that investors use social performance in firm's valuation [36]. In sustainable development goal achiever countries, it is noted clearly that different governmentauthorities to establish and implement sustainable reporting in order to strengthen relations between social andbusiness community.

Although the ESG results, from seven study sample, mostly found significant positive impact on the firmvalue the ESG indicators could give us another direction in the relationship with firm value. Based on these results, companies more concentrate on environmental disclosure. This means, the stakeholders are aware andconsider environmental practice as a main driver in their investment decision for a better asset efficiency. However, sustainability reporting is a mandatory, but it doesn't affect investors' assessment in some countriesand even tend to reduce firm value cause the cost of sustainability disclosure. Considering these results, we believe that environmental disclosure has a significance and usefulness in the business future for goods and services.

5. Conclusion

The goal of this study to empirically investigate whether sustainability reporting effective to better firmvalue. To accomplish this, we identified 200 studies research paper in index Scopus that have been conducted.The sample obtained seven articles based on screening and criteria. This study showed various findings. Sustainability reporting has negative impact in social and environment in banking sector but has positive significant in manufacturing sector and tourism sector. It means that if we measured individually from three models (economy, social, and environment) only one of them that can improved the relationship with firm value. For example, banking sector. In banking sector focused on seek build supporting social base for sustainable business while in manufacturing sector focus on environmental issue and firm's processes. In other words, investor use social performance in firm's valuation. Besides that, we also find that cost also affects theperformance. ESG can reduce the profitability if company's goals for charity or social development where it reduces the firm value.

Finally, we suggest to the future study has undertaken sustainable reports cause issue of sustainable report is very complex and determinant of disclosure sustainable report. The limitation of this study is seven study research which conducted in banking sector, manufacturing sector, and company. A future study can uselarge population, not only in index Scopus but also other sources. Further, we believe that more interactive research with the research subject is necessary to explain further the behind reason of influence ESG on firm value.

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