THE EFFECT OF SUSTAINABILITY DISCLOSURE WITH GOOD CORPORATE GOVERNANCE AS A MODERATING VARIABLE ON FIRM VALUE

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Abstract.
By using cross-sectional dataset comprising companies that is 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 is 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 the quality and quantity of sustainability disclosure give a positive and significant impact on firm value. Of the three GCG variables used, only the independent commissioner proportion moderate the effect of 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 (Khaghaany et al., 2019). This increase in demand is caused by internal and external pressure felt by the company 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 Programme (UNEP), 2019). Good sustainability performance allows the company to conduct analysis using information from financial and non-financial aspects that include environmental, social, and governance in making decisions to achieve company's goals. In response, Companies that has good financial performance, accountable, and concern to environment will build a positive image in front of the public, especially investors, so that it will support sustainability aspects for the company in the future.

The implementation of good corporate governance directly and indirectly affects the quality and quantity of disclosure of sustainability reports. Research from Mahmood et al. (2018) states that the existence of a good corporate governance (GCG) component can 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 board of commissioner 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 the level of quantity and quality will be influenced by the level of GCG implementation and the company's commitment towards 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 sustainability report is increasing because the changes in investor behavior patterns that is more concern towards sustainability. Research from Li *et al.* (2018) states that the level of ESG disclosure has a positive relationship to the value of a company due to increased transparency and accountability that resulit in the increase stakeholders' trust. Research from Santoso & Feliana (2014) concludes that corporate sustainability actions, especially those related to charitable activities through corporate social responsibility (CSR) can improve the company's financial performance because the company seeks to satisfy stakeholders so that they can synergize in improving the company's financial performance. Laskar & Gopal Maji (2018) conducted research and shows that these two variables have a significant relationship.

Meanwhile, it is found a research gap that occurs related to the effect of the sustainability disclosure on company value. Research from Sampong et al. (2018) concluded that disclosure of CSR information has a positive but insignificant relationship to firm value in South Africa. Meanwhile, in Germany, similar findings were also found. Research from Nguyen (2020) states that there is 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 in reporting its sustainability performance cannot be separated from the role of good corporate governance. GCG is seen as a moderating variable between the disclosure of sustainability reports and company value. Research that considers GCG as a moderating variable between the relationship between sustainability actions and firm value is still relatively rare to be found. However, from the existing research, it was found that there is a research gap. Research from Fatchan & Trisnawati (2018) explains that the interaction between good corporate governance and sustainability reports has no effect on firm value. In addition, research from Fiona (2017) examines 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 Sustainability Disclosure

The sustainability disclosures quality and quantity can be explained as the existence of a specific component of the GRI framework which is published through a sustainability report (Laskar & Gopal Maji, 2018). 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 number 1 for items that are disclosed and 0 for items that are not disclosed. The awarding of this number will be based on the 2018 GRI standard which has 89 disclosure items, namely 17 for the economic, 32 for the environmental, and 40 for the social.

3.2. Research Design

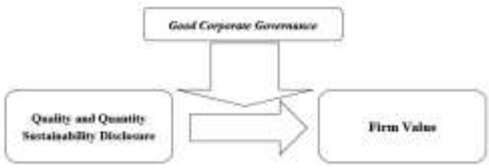

Fig. 1. Research Design

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_6 + \beta_3 X_7 + \beta_4 X_8 + \varepsilon \text{ ... (1)}$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_3 + \beta_3 X_4 + \beta_4 X_5 + \beta_5 X_1 X_3 + \beta_6 X_1 X_4 + \beta_7 X_1 X_5 + \beta_8 X_6 + \beta_9 X_7 + \beta_{10} X_8 + \varepsilon \text{ ... (2)}$$

$$Y = \alpha + \beta_1 X_2 + \beta_2 X_6 + \beta_3 X_7 + \beta_4 X_8 + \varepsilon \text{ ... (3)}$$

$$Y = \alpha + \beta_1 X_2 + \beta_2 X_3 + \beta_3 X_4 + \beta_4 X_5 + \beta_5 X_2 X_3 + \beta_6 X_2 X_4 + \beta_7 X_2 X_5 + \beta_8 X_6 + \beta_9 X_7 + \beta_{10} X_8 + \varepsilon \text{ ... (4)}$$

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 commisioner (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 logaritm of total asset (FSIZE)
X_8 = Sales growth (GROWTH)

3.3. Research Methodology

This research is applying 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 is collected from annual and sustainability report of each company and analyzed by using multiple linear regression techniques.

4. Results and Discussion

The sample criterias for this research are (1) listed on the Indonesia Stock Exchange in the 2017-2021; (2) publishing a sustainability report; (3) use Rupiah as the reporting currency; and (4) using the GRI. With the removal of outliers, this research is conducted by using 364 firm-year as the sample.

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

In table 1. the significance value of the SRQ and SRK is less than 5% so that it can be concluded that 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 serve sustainability reports guidelines for all companies in Indonesia since the 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 result is aligned and supported by Li *et al*. (2018); Qureshi et al., (2020); and Laskar & Gopal Maji (2018) 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 who come 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 aligned and supported by Wang (2017); Md. Abdul Kaium *et al.* (2018); and Fiona (2017) research.

Meanwhile, the SRQ variable moderated by BSIZE and ACMEET did not have a 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 variables BSIZE, BIND, and ACMEET 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 was found that all variables had no significant effect. Furthermore, on the control variable, only the CASH variable has a significantly 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 make efforts to increase firm value according to with slack resource theory. Some of the efforts that can be made are investing in technology that can support operational performance or even the company's sustainability performance. Research from Tangngisalu & Atestasi (2020) and Zurriah (2021) gives the result that the excess cash value in a company has a positive and significant effect on company value.

5. Conclusion

Based on the results of the study, the variables SRQ and SRK have a positive and significant influence on firm value which is proxied by the value of Tobin's Q. These findings indicate that investors have considered sustainability aspects in making their investment decisions. The existence of this behavior is in line with stakeholder theory where through sustainability reports, companies can optimize the value received by investors. GCG has relatively not been able to strengthen the effect of sustainability disclosure on company value. The only GCG that able to strengthen the effect is BIND, which moderates the variable quality of sustainability disclosure, strengthens the significant influence on firm value. This result was obtained because monitoring of 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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