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The Impact of Non-Financial Information to Firm Value: Study on The Sri-Kehati Index of the Indonesian Stock Exchange Before the Covid-19 Pandemic

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Abstract *This study aims to reveal environmental performance and the extent to which disclosure of sustainability reports influence Firm Value in public companies in Indonesia, which have an excellent record of compliance with the Government's environmental regulatory obligations. This study also tries to answer that non-financial information is currently significant for investors' investment decisions. This research sample is companies indexed by Sri-Kehati on the Indonesian stock exchange observation period of 2014-2018. Observation data for four years amounted to 55 and processing the regression data by E-views application. The study results indicate that environmental performance has no significant effect on firm value, but the disclosure on sustainability reports positively impacts corporate value. This study's results impact the companies sampled in this study to redefine their environmental strategies. It can see from the efforts they have made in various processes and considerable funding towards environmental problems. The greenhouse gas emissions they have done have not become a big concern for investors, although they appreciate the company's efforts to report these efforts to the public openly.*

Keywords*: Environmental Performance, Sustainability Report, Firm Value, Total Assets, Total Debt*

I. Introduction

Financial reporting has a vital impact on investors for acquiring and integrating value-relevant information in making or revising investment decisions(Yılmaz, M. K. Aksoy, M. and Çelik, T.T., 2020). Following the developments and demands of the global financial market, every company is willing to report financial and non-financial activities in their annual financial statements to the public. Several studies have found a relationship between corporate social and environmental disclosure and firm value, where environmental disclosure has been the focus (Gerged, Beddewela and Cowton, 2021).

Reports issued by companies on the stock market floor currently consist of financial and non-financial information (Setiawanta*et al.*, 2020). Information such as company policy, management decisions, or non-financial information also will be responded by investors on the stock exchange floor (Zhang and F.Wiersema, 2009). Over time investors have begun to link corporate environmental issues in their investment decisions (Berthelot *et al.*, 2012). For example, the results of carbon disclosure have increase rapidly in recent years and are a strategic problem for organizational decision making in today's competitive environment (Alsaifi *et al.*, 2020).

In the case of a public company in Indonesia, non-financial information such as environmental and disclosure of sustainability reports, as stated by Setiawanta and Purwanto (2019), also becomes information that triggers investors'reaction in investing. Or triggers investors' response to restraint as a form of risk control that might occur, as Tristiarini1 *et al.* (2019) also stated. The reaction result from policies or strategies that sharpen the implementation affect its stock price. Fluctuations in stock prices produce returns (stocks) that vary for investors.

For every public company listed on the Indonesian stock exchange, environmental problems have been determined as obligations that should be. However, reporting environmental activities reported in the sustainability report is still voluntary. Interestingly, environmental responsibility is a severe concern by companies or even investors.The measurement of this quoteis, looking at the value of Tobin's Q produced. This research is worth doing with several considerations, the first, Indonesia is one of the countries with the largest ASEAN market population (Association of Southeast Asian Nations). Second, This country also has the fourth largest population globally, and the entity listed on the capital market is the largest in the ASEAN region for emerging markets.The third consideration is to look at the behavior data of entities in the capital market before the year of the covid-19 pandemic in Indonesia, which is in the ASEAN region. Therefore, observations are expected to provide an overview of the facts of activities in the Indonesian capital market. Later, it can compare the results after the COVID-19 pandemic has decreased dramatically or in a normal economic situation.

Therefore, it is undoubtedly interesting to research investment behavior in companies listed on this stock exchange.The study's results' practical implications are also worthy of being a reference for decision-makers from sample companies. Implications related to the evaluation that they can do on environmental activities and their reporting so far. Both from the perspective of increasing the value of the company or investor reaction results.

II. Literature Review and hypotheses development

Signal theory states the importance of companies' information to investment decisions made by parties outside the company.The signaling approach is useful for describing behavior when two parties (individuals or organizations) have access to different information. Usually, one party, the sender, must choose whether and how to communicate (or signal) that information.The other party, the recipient, must decide how to interpret the signal(Connelly *et al.*, 2011). Suppose the top management is diversifying its shares,Maria Goranova and Todd M. Alessandri (2007) said, if They with all resources will communicate these management activities to the owners. Also, convince them that their activities or actions are the best that should occur to the company for their excellent.

Signal Theory deals with efforts to reduce information asymmetry between two parties, Spence (1973)describes, the labor market and shows how job applicants can engage in behavior to reduce information asymmetry that hinders selecting prospective employers. Signal theory shows that companies express a lot about environmental issues and send signals that they are proactively involved in environmental issues as part of the management strategy.They give incentives to inform shareholders and other stakeholders voluntarily and disclose more information they need from the company(Clarkso`n *et al.*, 2007). According to Orlitzky *et al.*(2003), reporting that must be disclosed by companies includes at least one set of financial statements. However, companies are permitted to reveal additional reports, i.e., articles that contain more than just financial reports such as sustainability reports. The purpose of this additional report is to provide further information regarding company activities. Also, as well as a means to offer signals to stakeholders regarding other matters. Such as giving signals about its concern for the surrounding area. It is a sign that the company is providing information based on regulatory requirements and provides more information for stakeholders.

According to Hidayah*et al.*(2020)environment is a cost to the company and carried out where the company operates (Siregar, 2009). It is certainly able to bring about a change in conservative perspective, where previously, many entrepreneurs thought that the cost to comply with environmental regulations was of significant value and was detrimental to efforts to maximize shareholder wealth. Veleva *et al.* (2003) stated that many companies do not yet have a strong belief in environmental financing that they will do, and have doubts whether it will bring good to the increase in economic value for the company.

Filbeck and Gorman (2004) states that business actors begin to think towards being more progressive and proactive towards the changing times that should be done so that business continuity is more open and secure and brings benefits for increasing Firm Value(Deswanto and Siregar, 2017). Lorraine et al. (2004) investigated the context of the United Kingdom's publicity on environmental pollution fines and praising environmental performance achievement. Whether the information affected stock prices, the results showed that the data's positive stock market response was mainly in the details of fines. Likewise, the findings fromAl-Tuwaijri *et al.* (2004)with environmental performance measured by the level of pollution prevention by industry positively influence the industry's economic value.

Disclosure of information is relevant to signal theory. The disclosure shows that the company revealed many things about environmental issues. The company sends signals proactively about its involvement in environmental matters. It was done as part of the management strategy because they received incentives to inform shareholders and other stakeholders. Voluntary action to disclose more information to external parties from the company has started to become a necessity (Clarkso`n *et al.*, 2007). Some research show evidence that signal theory plays a positive influence on environmental performance on firm value as found by Takeda (2006); Al-Tuwaijri *et al.* (2004); Yadav *et al.* (2015); Russo and Fouts (2016); also,Ioannou and Serafeim (2014). Based on this explanation, a hypothesis can be formulated as follows:

Hypothesis 1: Environmental performance has a positive influence on firm value.

According to the GRI guidelines, disclosure of environmental activities was developed more broadly and reported covering social and economic activities (Global Reporting Initiative). The report is known as the sustainability report. Sustainability reports become a medium to describe economic, environmental, and social impact reporting and the triple bottom line and other CSR reporting(GSSB, 2016). Awareness of reporting sustainability reports needs to be appreciated because they are not mandatory disclosures but are still voluntary (Quick, 2008). Understanding of writing and sustainability reports still needs a long time to be carried out by all listed issuers.The mandatory annual report and environmental report on CSR activities and voluntary sustainability reports make this report a burden for the company and reduce the investors' returns on investment. Thus, this sustainability report is sometimes seen as information that responds negatively to the trading floor.

The theory used in explaining the widespread influence of disclosure of sustainability reports on firm value refers to the signal's ideas. The signal theory also suggests how a company should signal to stakeholders. It given can also be done through the disclosure of non-accounting information such as sustainability reports. These reports have been made by management to realize the owner, the Government, and other stakeholders' wishes.Some previous studies found Sustainability Report has a relationship with firm value. Such asOgundare (2013); Banerjee *et al.* (2015); Takeda (2006);Berthelot et al. (2012);Kuzey and Uyar (2017); Loh *et al.* (2017); and also,Nekhili *et al.* (2017). Based on this explanation, a hypothesis can be formulated as follows:

Hypothesis 2:: Extensive Disclosure Sustainability reports have a negative influence on the value of the company.

III. Methodology

This research population is all companies listed on the Indonesia Stock Exchange from 2014 to 2018 and listed on the Indonesian Biodiversity Foundation's Sustainable and Responsible Investment Index (SRI-KEHATI), which can be viewed atwww.idx.co.id. This research ended in 2018 to avoid the possibility of data being affected by material situations outside the study, such as the incidence of COVID-19 at the end of 2019.The desired research sample is a sample that is strong in explaining GHG emissions / GRI pollution 305 in the sustainability report that they disclose to the public. This study uses a purposive sampling method, a sampling technique that uses specific considerations and limitations. The sample chosen was 55 observational data and relevant to research and data processing using Eviews-10. The following displays the determination of sample data as in the table below:

TABLE 1.**Determination of Samples by Purposive Sampling**

NO	Sampling Steps	2014	2015	2016	2017	2018	Sum
1	The companies included in the 2014-2018 Sri-Kehati index was not consecutive	25	25	25	25	25	**125**
2	Report Sustainability Reportingbut cannot be downloaded or combined with annual reports	8	8	7	1	2	26
Sub Amount		17	17	18	24	23	**99**
3	Sustainability downloaded does not convey environmental performance data (GHG emissions / GRI pollution 305), so it is not used as an extensive index of disclosure of sustainability reports	11	6	6	11	10	44
		6	11	12	13	13	**55**
4	Companies that do not have complete data in accordance with research variables or have a negative financial performance for two years in a row	0	0	0	0	0	0
	Total Samples	6	11	12	13	13	**55**

Note: characteristics determined by researchers

This study's independent variable is environmental performance measured by the number of metric tons of greenhouse gas emissions or pollution reported in sustainability reporting and the extent of disclosure of sustainability reports as measured by indexes reported in economic, social, and environmental categories. In this study, dependent variables are the company's value as measured by Tobin's q and the control variable over the dependent variable, namely total assets and total corporate debt. Regression models in research can be written as follows:

Firm Value = α + b_1. Environmental Performance + b_2. Disclosure of Sustainability Reports + b_3. Company Size + b_4. Company Obligations + $e_{1\text{-}4}$ ……….……………..…. **(1)**

Information:

Firm Value (FV)	: Tobins Q
Environmental Performance (Ln_GHG)	: Level GHG Emissions or Pollution
Disclosure of SR (L_SR)	: Index Disclosure of Economic, Social and Environment
Company Size (Ln_TA)	: Total Assets
Company Obligations (Ln_TD)	: Total Debts

$e_{1\text{-}4}$: Error coefficient of the regression equation

IV. Empirical results

The method for obtaining a parameter estimate must be precise. Right in a sense, the estimator received has met the theoretical criteria used as a standard measurement tool for various data conditions. One of the requirements for an estimator is its BLUE (Best Linear Unlimited Estimator). This criterion was first introduced by Gauss-Markov, mainly if we use a linear regression model to analyze it. This fact automatically provides an understanding that the BLUE criterion only applies if we use the Ordinary Least Square (OLS) estimation method (Ghozali and Ratmono, 2017). The autocorrelation test is used to determine whether or not a deviation from the classic assumption of autocorrelation is the correlation between the residuals in one observation and other observations in the regression model. The autocorrelation test in this study uses the Serial Correlation LM Test contained in E-Views 10,shows that the value in Obs * R-squared and Prob. Chi-Squared (2) is 0.1372, or the value is 0.1372> 0.05, so it said that there is no autocorrelation between variables in this study.Multicollinearity is a situation that shows a strong correlation or Relationship between two or more independent variables in a multiple regression model. A multicollinearity test is a test conducted to ascertain whether there were intercorrelations or colinearities between independent variables in a regression model. Intercorrelation is a linear relationship or a strong relationship between one independent variable or predictor variable with other predictor variables in a regression model. The multicollinearity test in E-views uses the correlation matrix. The result shown a matrix output correlation between independent variables less than 0.90; thus, it concluded that this research model is free from the multicollinearity effect.Heteroscedasticity is the opposite of homoscedasticity, a condition where the variance in error occurs for all observations of each independent variable in the regression model. Conversely, the notion of homoscedasticity is a state in which there is a common variant of error for all observations of each independent variable in the regression model. The Heteroscedasticity Test is a test that assesses whether there is a variance in residual variance for all variables in the linear regression model. This test is one of the classical assumption tests that must be performed in linear regression. If the heteroscedasticity assumption did not meet, then the regression model is declared invalid as a forecasting tool. The heteroskedasticity test in E-views uses the white test, shows that the value in Obs * R-squared and Prob. Chi-Squared (14) is 0.1373, or the value is 0.1373> 0.05, so it means that there is no heteroscedasticity in this research model.

4.1 Model Test

The test model in this study uses the simultaneous test or the F statistic test. This test has seen from the output table of the regression equation made on the calculated F value or Prob value (F-Statistics) as in the table below:

TABLE 2.**The Model Test**

Description	Value
F-statistic	6.355556

Prob(F-statistic)	0.000324

Source: Eviews data processing results

It appears in table 2. The Prob (F-Statistics) value is 0.000324 or smaller than 0.05, so it concluded that this study's model is Fit or proper.

4.2 Determination Coefficient

The coefficient of determination (R2) is a tool to measure how far the model can explain the variation of the dependent variable. The coefficient of determination is between zero or one. A small R2 value means the independent variables' ability to present the dependent variable's interpretation is minimal. And conversely, if a value close to 1 is mean, the independent variables can predict the dependent variables. The determinant coefficient value in this study Adjusted R-squared is equal to 0.284031. It can interpret that in this study, the Firm Value variable can be explained by 28.4% by the independent variables, namely environmental performance and the extent of disclosure of sustainability reports, while variables outside this study explain 71.6 %.

4.3 Hypothesis testing

TABLE 3. **Hypothesis Result**

Variable	Coefficient	Prob
C	60.69640	0.0035
Ln_GHG	1.009608	0.2997
L_SR	-10.70809	0.0213
Ln_TA	-0.041388	0.9735
Ln_TD	-3.784906	0.0000

Source:Eviews data processing results

Based on table 3, the first hypothesis stating environmental performance has a positive effect on firm value is unacceptable. It is known from the coefficient value of 1,009608 (positive) with a probe value. 0.2997> 0.05 at a significant level of 5%. The second hypothesis, which states the extent to the sustainability report's disclosure, negatively influences the company's value and can be accepted. It is known from the coefficient value of -10.70809 (negative) with a value of the probe. 0.0213 <0.05 at a significant level of 5%, while the control variable that can control the dependent variable is only the company's total debt variable Ln_TD with a probe. 0,000 significant 1%.

V. Conclusion

This study's environmental performance is measured by the level of pollution or greenhouse gas emissions reported in the sustainability report. However, it has a positive coefficient direction but does not significantly affect the company's value measured by tobins q. This result becomes less relevant to Alsaifi *et al.* (2020), which states that more and more companies have made their global warming strategy part of their core policy. They recognize go green can save money through increased energy efficiency and management waste, among other factors, and rising investor interest. Companies complying with environmental obligations have sought to control their carbon emission levels. It will become a popular strategy for companies. They collaboratively to reduce greenhouse gas emissions through sharing information about the risks, opportunities, and carbon costs of companiesZhang *et al.* (2017)and pressure from the Government under the Kyoto Protocol to the United Nations Framework Convention on Climate Change(Li *et al*., 2018). This situation is less in line with the view of Lev and Gu (2016) investigating.There has been a setback in the relevance of financial statements as input for equity investors' investment decisions. As outlined in their book entitled "End of accounting and a path for investors and managers," the company's non-financial performance report has also not been proven to get a good response from investors.

This study proves that the signal theory is not proven effective and in line with previous studies. For example, the research conducted by Deswanto and Siregar (2017)found that the current environmental performance has no influence on corporate value in the current year. The results of this study are supported by research findings fromLorraine, Collisonand Power (2004); Wu and Shen (2010); Ratri and Dewi (2017) and alsoGabrielle and Toly (2019). On the other hand, the failure of the proof also caused by the company's environmental performance has not fully received appreciation from the Government, as happened in China, and based on the observation that found that the company's environmental performance information is still like an empty slogan(Wu and Shen, 2010).

Disclosure of proven (positive) sustainability reports significantly influences Firm Value. It demonstrates that the business world is and will continue to face external influences to care about Sustainability reporting. These influences come from investors and creditors, who are increasingly sensitive to environmental and social issues and economic problems. Awareness to report sustainability reports needs to be appreciated because they are not mandatory disclosures but are still voluntary(Quick, 2008). The disclosure practice is not only for environmental exposure, but more comprehensive disclosure is in great demand by potential investors(Li *et al.*, 2018). Evidence shows that market interest in the transparency of performance and practices of large and medium-sized ESG (Economic, Social, and Governance Disclosure) companies is increasing(Ioannou and Serafeim, 2010). ESG disclosure, as a significant part of non-financial information, helps offer a greater understanding of the company's business to the parties (Duuren *et al.*, 2016).

The results of this study prove that signal theory is not proven effective. The existence of stakeholders and companies marked by the implementation of Sustainability reporting is a solution that is considered more efficient in carrying out the commitment of agents following the principal's wishes rather than a mechanism designed to curb opportunism from agents(Jones, 1995). Several studies have revealed that sustainability reports are related to Firm Value(Chester and Woofter, 2005). Companies that report sustainability reports tend to profit (Dilling, 2010). The statement also reinforces that companies that report Sustainability significantly outperform their peers in the long run. This conclusion is supported by a meta-analysis study fromMargolis and Walsh (2003); and Orlitzky *et al.* (2003),the company that reports it growing and higher quality than companies that don't report.

Likewise, other research states that extensive disclosure of sustainable reports can increase the company's value, as stated byOgundare(2013). At the same time,Martin et al. (2012)state that potential investors appear to give positive responses to companies that voluntarily express social responsibility, offering an excellent answer to invest. Other research that provides evidence for this argument is supported by Banerjee, Chang *et al.* (2015)and ESG can improve the company's transparency and accountability. So that the company's value is better expressed by Takeda (2006); Dubbink *et al.* (2008); Cheng*et al.* (2011); D Cormier *et al.* (2010);Kuzey and Uyar (2017); Loh *et al.* (2017); and Nekhili *et al.* (2017).

This finding is interesting because even though sustainability reporting is a voluntary report, it has been a concern of shareholders and investors. The honesty of disclosing non-financial information reported in the sustainability report is a negative note from investors in the Sri-Kehati index company. This result is expected to be a trigger for company management to maintain the information situation that has been carried out so far, the more extensive and in the sustainability report information or the quality of the information delivered, the greater stakeholder anxiety that there will be a reduction in their welfare from the company(Munshi and Dutta, 2016). It is a separate note for the development of sustainability reports in Indonesia. The negative response from management and investors can be a challenge for the government and the company itself in following the green development pattern in international transactions, even though this is considered to suck the prosperity that should be enjoyed by management and company owners.The results of this study can be an alternative or primary material for further research with various emphases, for example, corporate governance. The results can also be considered for conducting a re-study on the same population and sample in the Covid-19 situation. Investors can see the trend or behavior of management or owners of public companies in Indonesia by looking at the results of this study if sustainability reporting and its components are one of the concerns in making investment decisions in population or sample companies.

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