# SUSTAINABLE DEVELOPMENT GOALS DISCLOSURES AND COMPANY VALUES: A STUDY OF DIFFERENT TYPES OF INDUSTRY

**Susi Retna Cahyaningtyas**
*Jurusan Akuntansi FEB Universitas Mataram*
Susi_retnacahya@unram.ac.id

**R. Sapto Hendri BS**
*Jurusan Akuntansi FEB Universitas Mataram*
saptohendri9@yahoo.com

**Elin Erlina Sasanti**
*Jurusan Akuntansi FEB Universitas Mataram*
elinerlina@unram.ac.id

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## *Abstract*

*The existence of a global governance agenda requires companies all over the world to get involved in implementing Sustainable Development Goals (SDGs). However, previous study showed that corporate involvement in the achievement of SDGs is overall still limited and question on the company motives to disclose SDGs remains unclear. Therefore, the objective of this study is to analyze the association between SDGs disclosures and company values. This study also aimed to analyze the moderating effect of type of industry on the association between SDGs disclosures and company values. Study was conducted on companies listed in IDX, which disclosed SDGs in their Sustainability Reports. The results of this study suggest SDGs disclosures is associated to company value, which confirmed the signaling motives in the involvement of corporate SDGs. The results also showed that different types of industry could weaken the relationship between SDGs disclosure and company values, when associated with high-profile industry companies.*
***Keywords: company value, disclosure, industry, SDGs***

## Abstrak

Keberadaan agenda tata kelola global mengharuskan perusahaan di seluruh dunia untuk terlibat dalam menerapkan Tujuan Pembangunan Berkelanjutan (SDGs). Namun, penelitian sebelumnya menunjukkan bahwa keterlibatan perusahaan dalam pencapaian SDGs secara keseluruhan masih terbatas dan motif perusahaan untuk mengungkapkan SDGs masih belum dapat dijelaskan sepenuhnya. Oleh karena itu, tujuan dari penelitian ini adalah untuk menganalisis hubungan antara pengungkapan SDGs dan nilai perusahaan. Penelitian ini juga bertujuan untuk menganalisis efek moderasi dari jenis industri pada hubungan antara pengungkapan SDG dan nilai perusahaan. Studi dilakukan pada perusahaan yang terdaftar di BEI yang mengungkapkan SDGs dalam Laporan Keberlanjutan mereka. Hasil penelitian ini menunjukkan bahwa terdapat asosiasi antara pengungkapan SDGs dengan nilai perusahaan yang mengkonfirmasi motif pensinyalan atas keterlibatan perusahaan dalam SDGs. Hasil juga menunjukkan bahwa jenis industri dapat melemahkan hubungan antara pengungkapan SDGs dan nilai perusahaan ketika pengungkapan dilakukan oleh perusahaan yang termasuk dalam *high-profile industry*.


**Kata kunci: nilai perusahaan, pengungkapan, industri, SDGs**

## INTRODUCTION

Sustainability is the foundation for today's leading global framework for international cooperation. Sustainable development is a development process (land, city, business, community, etc.) that is principled to meet current needs without compromising the needs of future generations (WCED, 1987). At the beginning of the emergence of the term sustainable development, this concept only focused on dealing with damage to environmental resources and natural resources, which is in line with industrial growth. However, this has been criticized since it only focuses on environmental development and neglect the economic and welfare growth. The purpose of sustainable development is to balance between two interests at once, namely economic development and environmental preservation.

In September 2015, the United Nations (UN) adopted a global plan of action for sustainable development, named "Transforming Our World: The

2030 Agenda for Sustainable Development" (United Nations General Assembly, 2015). The 2030 Agenda for Sustainable Development provides a global blueprint to achieve a better and more sustainable future for all. It consists of 17 Sustainable Development Goals (SDGs) with 167 targets. They address the global challenges, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. Reaching the goals requires action on all fronts - governments, businesses, civil society and people everywhere all have a role to play.

The existence of a global governance agenda requires companies to get involved in implementing SDGs. A survey by KPMG (2018) shows that 40% of the world's 250 largest companies in the world are paying attention to the SDGs in their sustainability reports. Van Zanten and Van Tulder (2018) study indicated that business interest in the SGDs has grown quickly since it was launched in 2015. The fact that there is a clear potential for commercial businesses to involve in the achievement of the SDGs is certainly an encouraging matter. However, Van der Wall (2019) found that corporate involvement in the achievement of SDGs is overall still limited and implies that a mixture of legitimacy and institutional motives inspires SDG involvement. Hence, main question that arises for this research is, why would the company respond to this request by integrating the goals of this non-financial company in their business model and reporting it?

Sustainable development goals not only apply in developed countries but also in all countries including Indonesia without exception. Limited empirical study adressing SDGs issues particularly in Indonesia settings serves a research gap for this area of study. Most studies with Indonesian settings focused more on Corporate Social Responsibility issues or merely focused on SDGs disclosure practices on Sustainability Report (Theresia, 2018; Yane & Dita, 2019) without further analyzing the motivation behind the SDGs involvement disclosed in Sustainability Report. Therefore, this research is important to see to what extent SDGs have been fulfilled by Indonesian companies and the company's motivation in disclosing SDGs. Instead of using stakeholder and legitimacy motives in the involvement of corporate SDGs as indicated by study of van der Wall, this study examined signalling motives to explain the reasoning behind company's involment on SDGs.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Signaling Theory

Signaling Theory begins with the writings of George Akerlof in 1970 entitled "The Market of Lemons" which introduced the term of information asymmetry based on observations of the phenomenon of imbalance information regarding product quality between buyers and sellers. Akerlof (1970) found that when a buyer does not have information about a product and only have a general perception about the product, the buyer will judge all products both good and bad products at the same price, thus detrimental to sellers who have high quality products. This can reduced if the seller communicates their product by giving signal in the form of information about the quality of the products they have.

Ross (1977) later developed this theory buy putting forward that company executives will have better information and tend to provide this information to potential investors. Signal could be given in the form of good news and bad news. Company that provides good information will be different from companies that does not have "good news" by informing the market about their situation. A good company will give a clear signal and useful for investment decisions, credit and other similar decisions. Good signal can be in the form of better risk management and greater application of good corporate governance year by year. The existence of information in the form of "good news" owned by the company regarding future prospects is expected to be able to ultimately affect the company's performance both in the short and long term.

**Sustainable Development Goals Disclosure**

In September 2015, the UN adopted a resolution called the Sustainable Development Goals (SDGs) as a joint development target until 2030. The SDGs are an international agenda, which is a continuation of the Millennium Development Goals (MDGs). The SDGs were compiled by the United Nations by involving 194 countries, civil society, and various economic actors from all corners of the world. This agenda was created to answer the demands of world leadership in overcoming poverty, inequality and climate change in the form of concrete actions. The SDGs consists of 17 (seventeen) global goals with 169 (one hundred sixty nine) targets which will serve as policy and funding guidelines for the next 15 years and are expected to be achieved in 2030. These goals and targets include 3 (three) dimensions of sustainable development, namely the environment, social and economy. The SDGs not only reflect global sustainable development priorities, but also act as an overarching framework for companies to shape business strategies that are aligned with the SDGs.

According to report published by GRI, UN PRI and UN Global Compact in 2018, business should integrate SDG-related considerations into business strategies and processes, and existing reporting processes. Responsible business practices could attract sustainable finance, ensuring a virtuous cycle in the flow of goods, services and capital that can benefit other stakeholders and the natural environment. Research shows that both investors and companies benefit from meaningful disclosures on sustainability performance and impact (Friede, Busch & Bassen, 2015). Therefore, businesses are encouraged to report clearly about their contribution to the SDGs in an investor-relevant manner for maximum impact.

## Company Value

Company value is stakeholder's appeciation of company's performance and achievements in certain period. For owners and prospective owners, the value of the company is very important because it shows the company's ability to improve the welfare of its owner. There is no common company value as each investor has a different perspective in responding to information related to company performance or changes in economic conditions. There are many ways that can be used to value a company, including: Price Earnings Ratio (PER), Price to Book Value (PBV), Market to Book Value (MBV), Free Cash Flow (FCF), Price to Cash Flow Ratio (PCF), Tobin's Q.

Tobin's Q is an indicator to measure company performance, specifically the value of the company, which shows the performance of management in managing company assets. The value of Tobin's Q describes a condition of investment opportunities that a company has (Lang, et al 1989) or the company's growth potential (Brainard & Tobin, 1968; Tobin, 1969). Market-based performance, such as Tobin's Q value, reveals how investors evaluate the company's ability to create profits in the future (Luo & Bhattacharya, 2006). Tobin's Q is calculated by comparing the ratio of the market value of a company's share with the book value of the company's equity (Weston & Copeland, 2001). The Q ratio is deemed to outperform other ratio such as the ratio of market value to book value since this ratio focuses on how much the company's current value is relative to how much it costs to replace it at the present time.

**Relationship between SDGs Disclosure and Company Value**

Signal Theory emphasizes the importance of information released by companies on investment decisions of external parties. Information is an important element for investors and business people because information essentially represents pictures of the survival of a company, both for the past, present and future conditions and how the market responds. A complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool for making investment decisions (Guthrie et al., 2004).

Signal Theory focuses its attention on the effect of information on changes in information user behavior. One of the information that can be used as a signal is disclosure made by the company, both in the form of financial and non-financial disclosures. Disclosure of information can give a signal that the company has good prospects (good news) or vice versa bad signals (bad news) in the future. Non-financial reporting information such as reporting on SDGs gives signals to investors and other stakeholders that the company is actively participating in supporting the achievement of SDGs. Extensive disclosures help companies gain reputation for reliability from the capital and debt markets which can then be expected to influence the rise and fall of the prices of corporate securities that ultimately affect the value of the company.

Previous research generally studied the extent of SDGs disclosure published in companies' sustainability reports, while other studies looked for the association between SDGs diclosure with firm characteristics and institutional factors. Almontaser and Gerged (2019) reported that there was longitudinal gap between sustainability practices and SDGs disclosure in Libya. Similarly in an Australian setting, Subramaniam et al (2019) also found that the level of public disclosure and reporting on the SDGs by companies listed in the ASX150 index has room for improvement. The study of van der Waal and Thijssens (2020) found that companies treat the SDGs, similarly to the Global Compact, as a scheme with non-committal implications, facilitating impression management and learning. Hummel (2019) found that company's sustainability performance are positively associated with all types of SDG disclosure. Meanwhile, Muhmad and Muhammad (2020) found that about 96% of the publications indexed in Web of Science and Scopus reported a positive relationship between sustainability practices and the financial performance of companies. Thus, the hypothesis proposed is

**$H_1$: SDGs disclosure has positive association to company value.**

## Moderation Effect of Type of Industry on relationship between SDGs Disclosure and Company Value

Industry can be classified into two category based on its characteristics, i.e. high–profile industry and low–profile industry. Roberts (1992) explained that high–profile industries are those with high consumer visibility, high level of political risk, or concentrated intense competition. Example of high-profile industries such as petroleum, chemical, extractive and mining, forest and paper, automobile, airline, energy and fuel, transport and tourism, agriculture, liquor, tobacco, and media communications. In contrast, low–profile industries is defined as industries that does not get much of a public viewing if a company does any failure or mistake in some aspect in their production process or products. Finance and banks, food, health and personal products, hotel, building, electrical, textiles and apparel, retailers, medical supplies, property, as well as appliance and household products are examples of low-profile industries.

The voluntary nature of SDGs disclosure becomes a consideration on why industry classification might affect the relationship between SDGs disclosure and company value. High-profile industries which frequently get much intention from the public may have more extensive SDGs disclosure rather than low-profile industry in order to provide signals to investors and other stakeholders that the company is actively participating in supporting the achievement of SDGs. A study of Martin et.al., (2018) proposed this argument on CSR disclosure, although the results indicates that type of industry did not differ in terms of CSR actions. Thus, the hypothesis proposed is

**$H_2$: Type of industry moderate relationship between SDGs disclosure and company value.**

## RESEARCH METHODOLOGY

### Research Design

This research is a causality study that tests whether one variable causes changes in other variables. In other words, a causal study is conducted to provide evidence that the independent variable causes the dependent variable to change (Sekaran & Bougie, 2017).

### Population and Sample

The population in this study are all companies listed on the Indonesia Stock Exchange during 2016 to 2018. The sample of this study was determined based on purposive sampling method, in which the sampling was carried out in accordance with the stated research objectives (Sekaran & Bougie, 2017). The research sample is determined based on the requirement that the company discloses the application of SDG objectives in its sustainability report and has complete data for research analysis purposes. Based on these criteria, this study has obtained sixteen companies as the study sample.

**Data Collection**

This study uses secondary data collected from annual reports and sustainability reports of the companies included in the sample. Annual reports and sustainability reports were downloaded from the company's website and the website of Indonesia Stock Exchange. This study is limited to companies listed on the Indonesia Stock Exchange in 2018 since it is the most recent year in which research data is available.

**Variable and Definition of Operational Variable**

The dependent variable in this study is company value, measured by the value of Tobin's Q ratio. Tobin's Q value indicates the potential of a company's growth (Tobin & Brainard, 1968; Tobin, 1969). Tobin's Q ratio measures a company assets in relation to a company's market value. Tobin's Q ratio with a value of between 0 and 1 means it cost more to replace a company's assets than its company worth. A Tobin's Q ratio greater than 1 means that the company is worth more than the cost of its assets, which indicates higher growth of company and it is worth to invest on the company. The Tobin's Q ratio is calculated as follows:

$$\text{Tobin's Q} = \frac{\text{MVE+D}}{\text{BVE+D}}$$

MVE=

BVE= Equity Book Value + Liabilities Book Value

The independent variable in this study is the level of disclosure of seventeen Sustainability Developments Goals (SDGs) in Sustainability Report published by the company included in the study sample. To obtain the value of disclosure of the 17 SDGs, this study performed content analysis on the Sustainability Report and calculated the disclosure index. The company will be given a score of 1 if discloses any of 17 SDGs information and a score of 0 if not. The total score obtained will be devaluated with the maximum score to get a disclosure index value for each company. The formula used to figure disclosure index value is as follows

$$\text{SDGs Disclosure Index} = \frac{\text{Total disclosure}}{\text{Maximum score}}$$

The moderating variable of this study is the type of industry. Industry type is measured by dummy variable by assigning a value of 1 if the company is classified as high-profile industry and a value 0 if not. The classification is based on the level of sensitivity to the occurrence of environmental damage to industrial types. According to Roberts (1992), a company is classified as a low profile industry if it has business in consumer goods, miscellaneous industries, property, real estate and building construction, and trade service and investment. Meanwhile, a company is classified as high profile industry if the company engaged in mining, agriculture, basic industry and chemicals, infrastructure, utilities and transportation.

**Data Analysis and Research Model**

The data of the study were analyzed by both descrptive and regression analysis. Hair et al (2007) suggest that regression is a statistical technique used to explain the relationship between the dependent variable with the independent variable. Regression models used in this study is:

$$Q_{it} = b_0 + b_1SDG + b_2IND + b_3SDG{*}IND + e$$

Whereby:

Q = Tobin's Q value

SDG = SDGs disclosure

IND = type of industry

e = error

## RESULTS AND DISCUSSIONS

The data analyzed comprise 48 firm-year observations of listed companies across eight industries sectors that published Sustainability Report from 2016 to 2018. The sample companies contained different levels of disclosed information of SDGs as presented in the descriptive statistics results in Table 1.

**Table 1. Descriptive Statistics**

| | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| SDG | 48 | 0.35 | 1.00 | 0.70 | 0.18 |
| TOBIN | 48 | 0.28 | 13.49 | 1.52 | 2.75 |
| | | Freq | Percent | Valid Percent | Cumulative Percent |
| Low-profile industry | 0 | 18 | 28.6 | 37.5 | 37.5 |
| High-profile industry | 1 | 30 | 47.6 | 62.5 | 100 |
| Total | | 48 | 76.2 | 100 | |

The mean value of Tobin’s Q (> 1.00) indicates that the average of companies in the sample are worth more than the costs of its assets. Table 1 also shows that most of the companies in the study sample are classified as high-profile industry.

**Table 2. Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | 0.444 | 0.197 | 0.161 | 2.5197 | 0.197 | 5.523 | 2 | 45 | 0.007 |
| 2 | 0.630 | 0.397 | 0.356 | 2.2081 | 0.200 | 14.597 | 1 | 44 | 0.000 |

Table 2 illustrates the results of model summary of the moderated regression analysis. The first model represents the research model without moderation effect of type of industry, while the second model represents the research model with moderation effect of type of industry. Both model were statistically significant, which indicates the goodness fit of the model used in this study. The R square change value in Model 2 shows the increase in variation explained by the addition of the interaction term. The increase is statistically significant ($p<0.0005$), which suggest that type of industry does moderate the relationship between SDGs disclosure and company value.

**Table 3. Regression Results**

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | Variables | B | Std. Error | | |
| 1 | (Constant) | -0.902 | 1.480 | -0.61 | 0.545 |
| | SDG | 5.652 | 2.231 | 2.534 | 0.015 |
| | IND | -2.436 | 0.818 | -2.978 | 0.005 |
| 2 | (Constant) | -5.706 | 1.806 | -3.159 | 0.003 |
| | SDG | 13.553 | 2.846 | 4.763 | 0.000 |
| | IND | 7.682 | 2.743 | 2.800 | 0.008 |
| | SDG*IND | -14.96 | 3.916 | -3.821 | 0.000 |

The final regression model equation would be as follows:

**Tobin = -5.706 + 13.553SDG + 7.682IND -14.96SDG*IND + e**

Based on Model 1 and Model 2 in Table 3, the SDGs disclosures (SDG) and type of industry (IND) are statistically significant. The inherence is that both variables are associated with the company value as measured by Tobin's Q, which confirmed $H_1$. The interaction between SDGs disclosures and type of industry in Model 2 also shows a statistically significant result, which implies that type of industry could moderate the relationship between SDGs disclosure and type of industry, which confirmed $H_2$.

A positive direction of SDG in both model suggest that broader disclosures of SDG goals in the Sustainability Report will lead to higher company value in return. This result indicates that reporting on SDGs involvement provide good signal to to investors and other stakeholders that the company is actively participating in supporting the achievement of SDGs. SDGs disclosures help companies gain reputation for reliability from the capital and debt markets, which could affect the value of the company. This result confirmed Muhmad and Muhammad (2020) study, which posed a positive relationship between sustainability practices and the financial performance of companies. Meanwhile, a negative direction of type of industry in Model 1 suggest that the company value of high-profile industry will be lower than for low-profile industry. Likewise, a negative direction of moderating variable in Model 2 suggest that the effect of SDGs disclosures on company value decreases when high-profile industry companies disclosed SDGs.

## CONCLUSION

The objective of this study is to analyze the association between SDGs disclosures and company values. This study also aimed to analyze the moderating effect of type of industry on the association between SDGs disclosures and company values. The results of this study showed that SDGs disclosures has statistically significant effect on company values, which implies that investors reacted in positive direction to the company's involvement in SDGs achievement. The results also showed that different type of industry could weaken the relationship between SDGs disclosure and company values, when associated with high-profile industry companies.

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