The Value Relevance of The Environmental Performance and Reporting

Ayu Dwiny OCTARY

Lampung University, Indonesia

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Abstract

An information will be useful for decision making if the information is relevant and reliable. Investors not only consider the financial performance but also consider the company's relation with their environment and society because the sustainability of the company is not considered by their financial performance alone. The company's environmental performance information will enable investors or other related parties to assess the efficiency and sustainability of the company. The purpose of this study is to determine (1) whether environmental performance is value relevant and (2) whether sustainability report is value relevant. Environmental performance showed by rating PROPER Kementerian Lingkungan Hidup award. To minimize the asymmetric information about environmental performance in this study use environmental reporting in the sustainability report. The sample research obtained based on purposive sampling method in which the sampling is based on certain criteria. Criteria of the sample is based on (1) company that registered on Indonesia stock exchange (BEI), (2) company that publishes financial statements during 2014-2018, (3) manufacturing company that publishes sustainability report in 2014-2017, (4) manufacturing company that registered in PROPER Kementerian Lingkungan Hidup in 2015-2018. The analysis method in this study is using multiple regressions. The result of the research shows that environmental performance is value relevant. The result of the research shows that the sustainability report is value relevant. The result of the research indicates that simultaneously shows that environmental performance and sustainability report is value relevant.

Keywords : *environmental performance, PROPER, sustainability report, value relevance.*
JEL Code: *M21, L21*

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Introduction

Accounting information has value relevance if that accounting information as a basis to predict market price (Barth, Beaver & Landsman, 2001). investors will respond to any company information on the market as a basis for making investment decisions. For information to be beneficial to investors, the information must be relevant and reliable. Relevant information is information that has the potential to influence decisions making, while reliable information is information that can be relied upon as a basis for decision making. Financial reporting is important for disclosing crucial information about the options available for implementing environmentally friendly industry practices and related costs. Disclosure of the company's environmental policies in the annual report will enable investors and other relevant parties to make assessments based on information about the efficiency and impact of managers' sustainability decisions and actions (Deegan, 2004).

Information about the environmental performance will be reliable if issued by an independent party, thus in this study will use an assessment from the Ministry of Environment through Rating of Company Performance in Environmental Management called PROPER. But to reduce asymmetry information in this study also uses the level of corporate environmental disclosure in the sustainability report. Nuryana (2005) said sustainability report is a report published by the company that contains information on financial performance and non-financial information which consists of information on social and environmental activities that emphasize disclosure principles and standards that can reflect the overall level of company activity to enable company to grow sustainably. So that the sustainability report will minimize asymmetry information, so investors can respond to financial reporting information better that can reflected in stock market price.

The Value Relevance of Environmental Performance

According to Jogiyanto (2014), information submitted as an announcement will provide a signal for investors in decision making on investment. When information is announced, market participants first interpret and analyze that information as a good signal (good news) or bad signal (bad news). Signaling theory explains why companies have the urge to provide financial statement information to external parties. The signal provided by the company aims to reduce asymmetry information between management companies and external parties.

The value relevance concept is not a new thing (Miller and Modigliani, 1966; Amir et al., 1993). The term relevance of accounting information is derived from clean surplus theory which states that the value of the company is reflected in the accounting data contained in the financial statements (Feltham & Ohlson, 1995; Ohlson, 1995).

However, accounting information alone is not enough to overcome the problem of asymmetry information between managers and investors. Asymmetry information arises when there is a separation of duties between the principal (investor/owner) and agent (manager) (Deegan, 2007). Investors need information regarding environmental risks for the company's operations, and how to influence management policies to deal with these risks (Clarkson et al., 2008). According to Healy and Palepu (2001), asymmetry information can be reduced by disclosure of relevant information (sustainability report disclosure) to inform owners/investors about the performance of managers in overcoming environmental problems that may arise due to company activities.

Environmental Performance and Its Value Relevance

Sarumpaet et al (2017) reveal that markets value companies with good and poor environmental performance in different ways. According to Jogiyanto (2014), information published as an announcement will provide a signal for investors in investment decisions making. When information is announced, market participants first interpret and analyze that information as a good signal (good news) or bad signal (bad news). Signaling theory explains why companies have the urge to provide financial statement information to external parties. The signal provided by the company aims to reduce asymmetry information between management companies and external parties.

Environmental performance is considered as information that can provide a positive sign for investors as additional information in investment. Companies with better environmental performance provide information to the market that the company goes hand in hand with the environment, thus having long-term prospects. It also indicates that environmental performance information partially completes accounting information and can be used to explain market value. Nowadays, Investors begin to consider environmental information as important information in making their investment decisions. Environmental performance information is relevant information that can increase the stock price.

H_1: Environmental Performance are value relevant to the market

Sustainability report and Its Value Relevance

From an economic perspective, the company will disclose information if the information will increase the value of the company (Verecchia, 1983 in Basalamah dan Jeremias, 2005). Schadewitz and Niskala(2010) said that accountability reporting is an important explanatory factor for company value. Gumanti (2009) suggests that in signaling theory, managers or companies qualitatively have excess information compared to outside parties and they use certain measures or facilities to imply the quality of their company. Sustainability reporting is suspected as positive information about the company that can be relevant information as a basis for decision making, thereby increasing the value of the company's shares.

H2: Sustainability report are value relevant to the market

Research Design and Method

Sample and Data Selection

The population in this study is manufacturing, plantation and mining companies listed on the Indonesia Stock Exchange 2014-2017 period. Based on the results of observations, obtain 47 samples, which can be seen in the following table:

Criteria	**2014**	**2015**	**2016**	**2017**
manufacturing, plantation and mining companies that listed on the Indonesia Stock Exchange	184	187	189	201
Companies that obtain PROPER	72	73	76	74
Companies that publish sustainability reports	11	11	13	12
Observations	**47**			

Research Model

Model Measurement of value relevance refers to the price model developed by Ohlson (1995) below:

$P_{it+1} = \alpha + b_1EPS_{it} + b_2BV_{it}$

information:

P_{it+1} = Stock Price of the next year

EPS_{it} = earning per share

BV_{it} = book value of equity per share

However, it is modified by adding environmental information as other information that is expected to affect stock prices, (Clarkson, 2004) argues that market uses environmental performance indicators as other information that predicts negative abnormal earnings in the future. Then this research model is explained as follows:

$P_{it+1} = \alpha + \alpha_1 BV_{it} + \alpha_2 EPS_{it} + \alpha_3 PROPER_{it} + \alpha_4 SRDI_{it-1} + e$

Keterangan :

P = stock price company year t+1

BV = Book value of equity per share

EPS = Earning per share

PROPER = Environmental Performance

SRDI = Sustainability Reporting Disclosure Index

e = Error

Result and Discussion

Tabel 1 Regression Test Result

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7,519	2,489		3,020	,004
	BV	,631	,187	,511	3,365	,002
	EPS	,525	,082	,629	6,434	,000
	PROPER	,700	,253	,227	2,767	,009
	SR	-2,246	,639	-,363	-3,517	,001
	SIZE	-,523	,167	-,331	-3,122	,003
	LEV	1,738	,813	,251	2,138	,039
	FOR	,051	,356	,012	,142	,888

a. Dependent Variable: P

Source: data processed by SPSS 20, 2019

Based on the results of these calculations, the regression equation is obtained as follows:

$P_{it+1} = 7{,}519 + 0{,}511_{BV} + 0{,}629_{EPS} + 0{,}227_{PROPER} - 0{,}363_{SR} - 0{,}331_{size} + 0{,}251_{lev} + 0{,}012_{for}$

From the regression model above, the relationship between each independent variable is obtained, namely disclosure on sustainability report, PROPER rating, book value of equity per share, and earnings per share (EPS) with the dependent variable, namely the company's stock price as measured by the model prices can be explained as follows:

1. The positive constanta value of 7.519 states that if there are no activities from all the independent variables that affect the stock price, then the stock price will be positive 7,519.
2. The regression coefficient of book value equity per share is positive at 0.511 and has a significance value of 0.002 smaller than 0.05 so that it can be said that the book value of equity per share provides relevant information to influence the company's stock price positively.
3. The regression coefficient of earnings per share (EPS) is positive at 0.629 and has a significance value of 0.000 less than 0.05 so that it can be said that earnings per share can provide relevant information to increase the company's stock price.
4. The PROPER rating regression coefficient is positive at 0.227 and has a significance value of 0.009 smaller than 0.05 so that it can be said that the PROPER rating does provide relevant information to influence the company's stock price in positive ways.
5. The regression coefficient of sustainability reporting has a negative value of 0.363 and has a significance value of 0.001 smaller than 0.05 so that it can be said that the level of disclosure of sustainability report has a significant negative effect on the company's stock price. It can be said that the more companies disclose can reduce the company's stock price.
6. The regression coefficient of the company size has a negative value of 0.331 and has a significance value of 0.003 smaller than 0.05 so that it can be said that the size of the company gives a significant negative effect on the company's stock price.
7. The leverage regression coefficient (LEV) is positive at 0.251 and has a significance value of 0.039 smaller than 0.05 so that it can be said that leverage can provide relevant information to increase the company's stock price.
8. Regression coefficient of foreign ownership is positive at 0.012 but has a significance value of 0.888 greater than 0.05 so that it can be said that foreign ownership does not provide relevant information to influence the company's stock price.

Based on the results shows that all the independent variables can provide relevant information to increase the company's stock price with both positive and negative ways, except for the company size that cannot give relevant information to the investors

Conclusion

This study aims to examine the value relevance of environmental information as measured by the PROPER and GRI indexes on stock prices in manufacturing, plantation and mining companies listed on the Indonesia Stock Exchange in 2014-2017. Based on the results of the study, Based on the results of the PROPER rating assessment, which has 5 levels of assessment of the company's environmental performance, it shows positive and significant results, which means that the level assessment of PROPER in line with company's stock price.

So Hypothesis 1 which says that "Environmental Performance are value relevant to the market", is supported. In line with the research of Sarumpaet (2017) which shows that companies with good environmental performance will influence the increase in the company's stock price.

Based on the results of the sustainability report disclosure test measured using a dummy variable, it shows a negative and significant effect on stock prices. Shows that the higher the level of disclosure of the company's sustainability report will affect the decline in the company's stock price. So that hypothesis 2 "sustainability report are value relevant to the market ", is not supported. The results of the study are in line with the study of Hassel et al (2005) which found that environmental performance has a negative relationship with market value which indicates that companies with high levels of environmental performance are not highly valued by investors.

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