



Corporate Disclosure of Sustainability Reporting and Value Relevance in Developing Countries - A Review of Literature

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Abstract

In many countries, sustainability reporting has become popular and necessary, and the impact of sustainability implementation and disclosures on firm value remains mixed. As a result, the focus of this study is primarily on the impact of sustainability reporting on the value relevance of firms in developing countries. This paper draws on arguments from various theoretical frameworks: stakeholders' theory and legitimacy theory. A systematic approach was adopted in this study to form the basis for the study's conclusion and recommendations. The results of the existing evaluated literature revealed that the influence of sustainability reporting on business value was contradictory.

On the other hand, many studies showed a favorable association between sustainability reporting and business value. Second, the researchers discovered that the degree of sustainability disclosure in emerging countries was lower than in other industrialized countries. It was discovered that existing research on the industry analyzed and the sample size utilized had specific methodological issues. This paper adds to the field by providing crucial insights into the influence of sustainability reporting on company value using samples from developing countries. As a main proposal in the study, implementing sustainability disclosure methods may increase the value relevance of firms.

Keywords: sustainability reporting; firm value; financial performance; value relevance

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1. Introduction

In today's globalized world, business growth is more than just financial data or the status of a firm; it is a mix of economic, social, and environmental factors. These three components are essential to the notion of sustainable development. Each corporation must pay a cost for its social obligation, which

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offers a challenge for a company that must raise earnings to boost firm value while not being reckless in performing its social responsibilities.

The process through which firms reveal their economic, environmental, and social effects on society and the environment as a result of their everyday business operations is known as sustainability reporting (Global Reporting Initiative [GRI], 2019). Businesses are not socially and ecologically responsible since their operations contribute to environmental deterioration, climate change, and pollution in the communities and surroundings in which they operate. Scientists have also observed that the ecology has altered dramatically due to the actions of businesses (Dobre, Stanila, & Brad, 2015). The reckless attitude of a company may be shown in its financial accounts. After each fiscal year, businesses record tremendous profits while claiming to perform to the detriment of the environment and communities in which they operate (Johari & Komathy, 2019). Business enterprises' reckless behavior might impair their long-term worth.

The rise in the popularity of sustainability reporting may be attributed to the creation of corporate social and environmental reporting (Jones et al., 2016; Uyar, 2016). Because of its popularity, investors have begun to recognize the importance of sustainability reporting (Cormier & Magnan, 2007). With increased knowledge, investors are more inclined to prefer companies that provide more powerful sustainability reporting when making investment choices (Cormier et al., 2009). Furthermore, increased public knowledge of corporate environmental and social concerns has necessitated corporations disclosing their efforts and activities on these matters. These information transparency initiatives address the interests of a wide range of stakeholders, particularly shareholders (Wang & Li, 2015).

Sustainability reporting has been critical in accounting and reporting literature for many years. This is because stakeholders need financial and non-financial information to make conscious decisions. Investors and owners use this information to make investments and other industry choices. Even though sustainability reporting has grown in importance in recent decades, the plausibility of studies on how sustainability reporting correlates with firm value remains uncertain and incomplete (See, Isa, 2014; Loh, Thomas, & Wang, 2017; Lourenço, Callen, Branco, & Curto, 2014; Oyewo, 2014; Asuquo, Dada, & Onyeogaziri, 2018). However, whether investing in sustainability reporting improves business value is still debatable, and the influence of sustainability reporting on firm value is uncertain (Carp, Păvăloaia, Afrăsinei., & Georgescu, 2019). As a result, the detected gap served as the inspiration for the investigation.

Therefore, this current research aims to empirically join the dots on how sustainability disclosure links to firm value since there appear to be inconclusive results in the literature on the connection between sustainability reporting and firms' value integration. Prior research has primarily focused on developed nations or a worldwide level. This may not generalize the conclusions of this research for developing nations since their fundamental institutional or legal foundation varies from countries in the developed world. For example, developing nations have more significant enforcement gaps in the legislation of human rights and environmental protection compared to developed ones (Shum, Burritt & Chen, 2009). Moreover, the influence of stakeholders in developing nations could be less influential than that in developed ones. Therefore, emerging market research should add to this increasing body of knowledge.

2. Literature Review

2.1. Conceptual Review

2.1.1 Sustainability Reporting

Sustainability reporting, commonly known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial accounting, or triple bottom line, has

been around for roughly four decades (Asaolu, Agboola, Ayoola & Salawu, 2011). There is, however, only a single, universally recognized definition of Sustainability reporting. It is a broad term that refers to a company's reporting on its economic, social, and environmental performance (KPMG, 2008).

The notion of sustainable reporting emerged in the 1980s with the publication of the first environmental reports. According to Johari and Komathy (2019), sustainability reporting combines two concepts: sustainability and reporting. While the former refers to meeting the current generation's needs without jeopardizing future generations' ability to meet their own needs (Brundtland, 1987), the latter refers to disclosing an organization's information fully or partially to stakeholders who require it for various purposes. As a result, sustainability reporting incorporates economic, environmental, and social reporting and accounting into corporate reporting (Elkington, 2004).

Sustainability reporting progressed from employee reporting from social reporting to environmental reporting to triple bottom line reporting and eventually to sustainable reporting. The reasons for sustainable reporting are several, but the most notable ones are to monitor and advance the business performance, provide stakeholders with information on the organization's going-concern state, and provide stakeholders information on the organization's going-concern status (Johari & Komathy, 2019). Also, the Global Reporting Initiative [GRI] (2019) defines sustainability reports as those published by businesses that detail their day-to-day operations' economic, environmental, and social implications. As a result, the purpose of this report is to help achieve the objectives of sustainable development (Gunarsih & Ismawati, 2018).

2.1.2 *Value Relevance*

Value relevance is an intriguing subject for companies owing to its effect on firm growth. Investigating possible elements that have an influence on company value may give management the knowledge on how to boost value. Assessment of the value relevance of sustainability reporting is vital as it entails deploying many resources.

Firm value is a yardstick for gauging how an organization can satisfy its owners, generally via profit maximization or shareholder wealth; it also conveys a metric including financial and non-financial effectiveness by satisfying all of the firm's stakeholders. It has been proposed that businesses embracing sustainability accounting may struggle because of rising labor expenses. They also give up lucrative businesses because they do not fit properly with the norms of the localization society (e.g., getting involved in businesses with adverse environmental effects). In other words, environmentally solid organizations face tighter restrictions on how they can carry out their businesses because sustainability accounting introduces more constraints, which may result in low productivity by the organization. An opposing viewpoint holds that firms in the high social and environmental group are capable of better performance because they acquire quality labor, establish a good supply chain, and, most pertinently, maintain a healthy connection with the society where the organization is domiciled, which reduces conflict between the company and the community and calls for a pleasant business environment (Mitchell, 1997). Due to these businesses' limits, it is also considered that they participate in diverse business prospects to compete well with their opponents.

As a result, organizations that operate ethically and responsibly are more likely to educate stakeholders via the publication of sustainability reports. Another popular argument about the relationship between sustainability reporting and business value is that the reporting can improve the issuing firm's reputational capital (Guidry & Patten, 2010).

2.2. *Theoretical Background*

2.2.1 *Stakeholder Theory*

The stakeholder theory can be theoretically used to explain how sustainability links to firm value. Moral and ethical principles predominate in business management, according to the notion. It is regarded as a crucial hypothesis that will assist consumers in comprehending the nature of sustainability reporting.

The stakeholder approach holds that all relevant parties have the right to be treated equitably by the system. According to Freeman (1984), a stakeholder is any group or person who can influence or is influenced by the attainment of the organization's goals. These groups or persons are examples of investors, employees, consumers, rivals, suppliers, governments, non-governmental organizations (NGOs), and the general public. The goal of the stakeholder theory is to establish which important players are more significant to the company; this is critical to the organization's management since it is considered that the organization's success in terms of performance is dependent on the support of the stakeholders (Isa, 2014).

According to stakeholder theory, a business's activities influence the firm's values and other stakeholders. As a result, a firm's activities and decisions should be based on the requirements of all stakeholders. When these groups' interests are considered, risk estimate improves, providing firm value for investors and other stakeholders (Martnez-Ferrero & Frias-Aceituno, 2013). Consequently, sustainability reporting contributes significantly to a company's internal and external bodies. Furthermore, when a company's board of directors implements social responsibility policies, it may get long-term support from its stakeholders, which can favorably affect its long-term worth.

2.2.2 *Legitimacy Theory*

The idea underlying the legitimacy theory has been that corporations are parties to a social compact agreement with the community in which it operates. Because these standards are not permanent and vary over time, the organization must adhere to society's ethics and morals. It is claimed that under this relationship, the society has the authority to withdraw the organization's contract if the organization works in violation of the society's ethics. It is also regarded that the organization owes explanations to society when they seem to veer from typical to aberrant. When an organization cannot explain its activities, the community may, in a sense, rescind its contract with the organization. As a result, businesses must adapt to social changes, as the community's demands vary over time (Mansell, 2013).

Firms are thought to have hidden societal duties. Firms create sustainability reports to show conformity with standards due to the requirement to act as society expects. According to Cho and Patten (2007), sustainability disclosure may be utilized as a legitimizing strategy. The legitimacy process necessitates that companies select indicators with standard rules or other criteria to gauge their social and environmental performance to communicate with society about the firm's adherent status (Deegan & Blomquist, 2006). Businesses that provide clear and acceptable sustainability reports demonstrate their commitment to social responsibility and compliance with sound business practices. This can help stakeholders perceive the firm's socially responsible performance and transparency. As a result, a high degree of stakeholder perception and support may increase the value of firms.

3. **Method**

The study looks at the value relevance of sustainability reporting in developing markets. This inquiry was carried out using empirical and descriptive research methods. Empirical research is a kind of investigation that relies on observation, logic, and reasoning (Hopkins, 2005). In addition, a systematic strategy was employed to choose relevant papers from the literature. This evaluation focuses on

important peer-reviewed publications indexed in quality and impact ratings on developing nations between the years 2013 and 2021 in order to understand the current status of research at the time of publication.

Manual and automated searches were integrated with a systematic method to measure the influence of sustainability initiatives on firm value and business performance. Several keywords, including environmental, social, and governance, corporate disclosure, sustainability framework, social and environmental sustainability, economic sustainability, firm value, financial performance, market value, financial and non-financial performance, and value relevance, were used in the first stage.

There were many rounds of article removal to narrow down the collection of publications relating to the influence of sustainability reporting disclosures on firm value. At preprints, more articles were removed, and new ones were added from databases such as Emerald, EBSCOhost, ProQuest, Scopus, IEE Xplore, Research Gate, Microsoft Academic, Semantic Scholar, Web of Science, Science Direct, and Google Scholar. Non-academic articles are omitted from the scope of this study, which solely considers scholarly articles in the search procedure. The study included only peer-reviewed literature that was accessible in complete form in English. Some articles were omitted since they concentrated on the determinants of corporate social performance in industrialized nations.

Furthermore, some publications need to address sustainability reporting. This study's database includes conceptual literature as long as it covers sustainability reporting. The methodical methodology finally resulted in a total of fifty-six (56) research publications being selected for review.

4. **Empirical Evidence from Emerging Economies**

Numerous studies have been conducted in several developing countries to investigate the relationship between sustainability reporting and the value relevance of accounting information to the entire stakeholders. Ngatia (2014) investigated the influence of sustainability reporting on the financial performance of selected Kenyan firms on the Nairobi Securities Exchange. One hundred and ninety-seven (197) respondents were used as a sample size. The core study data was gathered via a questionnaire from the management staff of Kenyan-listed firms. The findings demonstrated that sustainability reporting has a favorable and considerable impact on financial performance. Oyewo (2014) studied the practices of sustainable development reporting by Nigerian banks, utilizing publicly traded commercial institutions in Nigeria as his population. To test for mean difference, ANOVA was performed. According to the findings of this study, reporting on sustainable development is independent of the size of an organization or the amount to which it makes a profit. Furthermore, it was shown that their sustainable development is insignificant despite the large size of the banks.

In Brazil, Chwistecka-Dudek (2016) and Ching, Gerab, and Toste (2017) investigated the relationship between sustainability reporting and value relevance via the lens of financial performance. They determined no positive link between listed enterprises' value relevance and sustainability reporting practices. Given this context, it is reasonable to conclude that improving the inherent quality of sustainability reporting procedures only sometimes enhances value relevance and financial success (Ansari., Cajias, & Bienert 2015). Ndukwe and Nwakanma (2018) studied the connection between sustainability disclosure and profitability of selected listed companies in Nigeria from 2011-2015. The hypotheses were tested using the multiple regression analysis approaches. The results revealed an inverse link between equity returns and sustainability disclosure.

Alshehhi, Nobanee, and Khare (2018) conducted a literature review on the relationship between corporate sustainability on company financial performance. They examined the literature using content analysis to determine the current status of the research. According to their findings, 78 percent of publications show an excellent association between company sustainability and financial success. Asuquo, Dada, and Onyeogaziri (2018) investigated the impact of sustainability reporting on the

corporate performance of selected Nigerian-listed brewing enterprises. On the GRI framework, content analysis was used, and company performance was assessed using Return on Asset (ROA). According to the linear regression results, the sustainability reporting system has no meaningful influence on beer enterprises' corporate performance in Nigeria.

Carp et al. (2019) conducted a study in Romania on the influence of sustainability reporting on business growth in the Romania Capital Market. Both the Global Reporting Initiative's (GRI) and the International Integrated Reporting Council's (IIRC) frameworks were examined using content analysis. It was shown that sustainable reporting had a modest effect on a firm's growth metrics. Furthermore, they discovered that sustainability reporting had little effect on business value. In Japan, South Korea, Indonesia, and India, Lasker (2018) evaluated the influence of corporate sustainability reporting on business performance in Asia. GRI framework was used for content analysis, and company performance was monitored using the market-to-book ratio. There is a significant positive relationship between sustainability reporting and corporate performance.

Johari and Komathy (2019) researched the association between sustainability disclosure and company performance across Malaysian publicly traded companies in Malaysia. There is a negligible negative association between sustainability reporting and a firm's performance. Emeka-Nwokeji and Osioma (2019) evaluated the influence of sustainability disclosures on the market value of Nigerian non-financial listed enterprises. According to the findings, sustainability disclosures have a considerable beneficial influence on firm value.

Nguyen (2020) conducted an empirical investigation of the influence of sustainability reporting on business value. The study used Multiple Regression drawing observations from big listed German corporations from 2013 to 2017. The results revealed a substantial inverse relationship between business worth and a firm's degree of GRI compliance with sustainability reporting. Aifuwa (2020) investigated the influence of sustainability reporting on company performance in developing countries using a systematic content analysis technique, which provided the foundation for the researcher's findings and suggestions. The results of the existing evaluated literature revealed that the influence of sustainability reporting on company performance was equivocal.

Concerning Saudi Arabia, Haidar and Sohail (2021) investigated if sustainability reporting affects the financial performance metrics of Saudi-listed companies. The study's data is subjected to regression analysis. The analysis confirms that there is no relationship between sustainability reporting procedures and the corporate financial performance of publicly traded companies. Through a study of research on sustainability reports in the accounting literature, Inten, Zulnadi, and Kartasari (2021) gave a thorough summary of the current status of sustainability reporting. A systematic literature review process was utilized to study how the sustainability reporting literature grows and focuses. The study provides researchers with an understanding of impending sustainability reporting disclosure.

Nonetheless, in Romania and Italy, Dobre, Stanila, and Brad (2015), as well as Truant, Corazza, and Scagnelli (2017), investigated the effect of sustainability reporting standards by Italian and Romanian listed corporations and found that these firms showed good long-term financial performance. According to Truant et al. (2017) researched the association between CSR and sustainability reporting processes and the market values of listed corporations, the value relevance of yearly financial reports improved significantly by incorporating knowledge of environmental and social performance. Nonetheless, Wang (2015) in Taiwan concluded that the value relevance of business performance could not be solely attributed to sustainable reporting procedures.

In contrast to these previous results, Loh et al. (2017), as well as Lourenço et al. (2014), investigated the relationship between sustainability reporting and firm value in Singapore and discovered that organizations with sustainability reporting procedures or frameworks generally have larger firm values than those that never considered sustainability reporting.

5. Practical Issues Surrounding Sustainability Reporting

Sustainability reporting has steadily acquired importance in developing countries and the rest of the globe. This is in reaction to a need for businesses to become more responsible in how they manage economic, social, and environmental actions that influence critical players. This reporting approach is also well-acknowledged in the corporate world, and most academic papers on sustainability reporting are favorable. Despite this, the recent advent of sustainability reporting has spurred debate over whether it impacts the value of enterprises. This debate arose as a consequence of several concerns surrounding sustainability reporting itself. Mu-oz, Zhao, and Yang (2017) identified three areas where sustainability reporting had flaws that need addressing quickly and explicitly in order to achieve widespread acceptability and high compliance. The aspects covered were concept definition, motivation, disclosure and measurement, enforcement and compliance, standardization, and the report's comparability and dependability.

Researchers approached sustainability reporting from various perspectives while ignoring its economic consequences (Gunarsih & Ismawati, 2018). Aside from the problem of various definitions of sustainability, there is also the question of measurement. Environmental challenges such as environmental deterioration, water pollution, and changes in ecological structure, as Jones (2014) pointed out, cannot be objectively quantified. In a word, sustainability's social and environmental components cannot be precisely quantified.

Another area for improvement is enforcing sustainability reporting. The report is entirely voluntary. As a result, it is challenging to discipline erring companies on social and environmental grounds. For example, in Nigeria, the Nigerian Stock Exchange (NSE) embraced the concept of sustainability reporting by implementing the GRI framework; nevertheless, the report is not required for enterprises to be listed (Asaolu et al., 2011). Even in the Corporate Governance Code of Nigeria (2018), the part on sustainability reporting is lacking compared to other portions of the Code. Due to a lack of vigorous enforcement, this report's compliance rate needs to be higher.

Furthermore, there are several standards for sustainability reporting throughout the world. AccountAbility (AA) rating, Dow Jones Sustainability Index (DJSI), Business in the Community (BiTC), International Integrated Reporting Council (IIRC), Business Ethics 100 (Hopkins, 2005), Carbon Disclosure Project, Global Framework for Climate Risk Disclosures (GFCRD), and Sustainability Accounting Standard Board (SASB), are some of them (Emeka-Nwokeji & Osioma, 2019). The problem of disparate SR standards has hampered the dependability and consistency of sustainability reporting.

The motivation for sustainability reporting in the developing world is another problem. Most international corporations in developing markets only need to disclose social and environmental concerns once stakeholders' pressure them to do so (Hashmi, Damanhoury & Rana, 2015). Domestic enterprises do significantly worse since they do not recognize the need to report sustainability concerns despite stakeholder pressure (Muoz, Zhao, & Yang, 2017). There seems to be little incentive to report on primarily environmental and social topics. In contrast, Al-Gamarh and Al-Dharnari (2016) argued that big enterprises were strongly motivated to disclose sustainability difficulties to get a more significant market share than small businesses.

Another point of view is that businesses would pay more expenses in addressing sustainability concerns, and hence they will have a detrimental influence on firm performance; nonetheless, there is still a situation of equivocal results on the link between sustainability reporting and company value (Alshehhi et al., 2018). The inconclusive study might be due to limited sample size, inconsistency in the sustainability reporting indicator, the lack of validity and reliability tests on the index used, and the location investigated. As a result, further empirical research is required to validate the causes mentioned above.

6. Summary, Conclusion, and Recommendation

This study presents empirical research on the influence of sustainability reporting on the value relevance of businesses in emerging economies from 2013 to 2021 in a systematic manner. It also outlines and examines several methodologies utilized in the literature on sustainability reporting. The analysis examined a sample of 56 sustainable reporting publications published in accounting journals. This study, to the best of the authors' knowledge, is the most current literature review research that gives an overview of sustainability reporting and company value relevance (Lourenço et al., 2014; Ansari & Bienert, 2015; Loh & Wang, 2017; Emeka-Nwokeji & Osisoma, 2019; Nguyen, 2020; Haidar & Sohail, 2021). This research varies from earlier studies that concentrated on sustainability reporting and sustainability reports, as well as CSR and sustainability reporting terminology. Using this method, it is possible to conclude that this study explains recent sustainability reporting studies.

The research is based on a systematic analysis of papers and discovered that from 2013 to 2021, studies conducted in developing nations are scanty compared to studies from developed nations. It was discovered that most research conducted in developing countries employed the GRI framework as an index for sustainability reporting and that Tobin's *q*, return on assets/equity, and return on equity were the essential proxies for business performance/value. Much research on a developing nation primarily based on imminent value systems made it legitimate to apply stakeholder and legitimacy theories in examining the SR and value relevance within a theoretical framework.

The study's unique motivation was based on the inconclusive results of the correlations found in the examined literature (Ansari et al., 2015; Ching et al., 2017; Chwistecka-Dudek, 2016; Loh et al., 2017; Lourenço et al., 2014; Dobre et al., 2015). This might be due to the sectors analyzed and the sampling methods used. This research also found that sustainability disclosures were weak among enterprises in developing countries. This means that developing economies will not be able to meet the UN's sustainable development objectives by 2030. This is due to the report's voluntary nature. However, the country will be on the road to sustainable development if the sustainability report is obligatory.

This research contributed to a recent overview of sustainability reporting and business value and provided fascinating views and recommendations for prospective studies. Based on a thorough examination of the literature, this research demonstrates a significant association between how sustainability reporting influences business value regarding disclosures, various ideas, techniques, and study issues during the previous several years. This paper has limitations that could serve as a foundation for future research. In light of the preceding, it is recommended that supplementary studies on the impact of sustainability reporting on firm value be conducted based on the methodological improvements recommended by the size of the sample of companies examined to cover all parts of the economy and for more extended periods. Furthermore, the dataset excludes research publications (e.g. conference papers or working papers). Furthermore, instead of typical literature reviews, quantitative methodologies for concluding may be used to establish the dependability of the findings. However, the authors' conceptions and views will significantly impact the understanding of the facts.

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Pengungkapan Perusahaan Pelaporan Keberlanjutan dan Relevansi Nilai di Negara Berkembang - Tinjauan Literatur

Abstrak

Di banyak negara, pelaporan keberlanjutan telah menjadi populer dan diperlukan, dan dampak penerapan dan pengungkapan keberlanjutan terhadap nilai perusahaan tetap beragam. Akibatnya, fokus penelitian ini terutama pada dampak pelaporan keberlanjutan pada relevansi nilai perusahaan di negara berkembang. Makalah ini mengacu pada argumen dari berbagai kerangka teori: teori pemangku kepentingan dan teori legitimasi. Pendekatan sistematis diadopsi dalam studi ini untuk membentuk dasar bagi kesimpulan dan rekomendasi studi. Hasil literatur evaluasi yang ada mengungkapkan bahwa pengaruh pelaporan keberlanjutan terhadap nilai bisnis adalah kontradiktif.

Di sisi lain, banyak penelitian menunjukkan hubungan yang menguntungkan antara pelaporan keberlanjutan dan nilai bisnis. Kedua, para peneliti menemukan bahwa tingkat pengungkapan keberlanjutan di negara berkembang lebih rendah daripada di negara industri lainnya. Ditemukan bahwa penelitian yang ada pada industri yang dianalisis dan ukuran sampel yang digunakan memiliki masalah metodologi tertentu. Makalah ini menambah lapangan dengan memberikan wawasan penting tentang pengaruh pelaporan keberlanjutan pada nilai perusahaan dengan menggunakan sampel dari negara berkembang. Sebagai usulan utama dalam penelitian ini, penerapan metode pengungkapan keberlanjutan dapat meningkatkan relevansi nilai perusahaan.

Kata kunci: pelaporan keberlanjutan, nilai perusahaan, kinerja keuangan, relevansi nilai