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The Mediating Effect of Sustainability Disclosure on the Relationship between Financial Performance and Firm Value

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Abstract

The purpose of the study is to examine the effect of financial performance on sustainability disclosure and then to examine the effect of sustainability disclosure on firm value. Sustainability disclosure is treated as a mediating variable, therefore an investigation of the indirect effect of financial performance on firm value is required to accomplish the mediating effect. It is predicted that lower leverage and higher firm size, higher liquidity, as well as higher profitability will motivate companies' management to convey more their sustainability disclosure. This action should increase firm value. The sample used in this study is companies listed on the Jakarta Islamic Index (JII) for the period 2013 – 2015. The study uses path analysis to examine the hypothesis.

The results present that higher liquidity emboldens management to convey more sustainability disclosure. Higher sustainability disclosure increase firm value significantly. However, the effect of leverage, profitability, and firm size is not significant. Regarding the indirect effect of financial performance on firm value, the results show that leverage and profitability have a positively indirect effect on firm value. However, size and liquidity have no indirect effect on firm value. This means that the increase of leverage and profitability will encourage management to publish more sustainability disclosure and it will increase firm value of companies listed on the Jakarta Islamic Index.