Chapter 12
The Role of Corporate Sustainability on Firm Value: An Application on Borsa Istanbul

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ABSTRACT
This study investigates the role of listing in sustainability index on the firm values of Borsa Istanbul firms. Furthermore, the interaction effects of some firm specific characteristics on firm value are investigated. Firstly, the impact of each firm specific characteristics, and mainly sustainability dummy, on firm value is analysed. It is found that firms that are listed in BIST Sustainability Index have higher firm values. Secondly, the interaction terms with sustainability dummy and each firm-specific characteristic are created. It is concluded that, among the firms listed in BIST sustainability index, firms with higher leverage ratios, lower current ratios, lower price to equity ratios, lower asset turnover ratios, and lower tangibility ratios have higher firm values.

INTRODUCTION
Corporate sustainability is an approach that creates value for shareholders and stakeholder by embracing opportunities and managing risks deriving from economic, environmental, and social developments (Dow Jones, 2019). Moreover, corporate sustainability is composed of three types of sustainability: economic, environmental and social sustainability. Economic sustainability occurs with strong financial structure and high profit of the firm. Environmental sustainability states the firm’s avoidance of environmental damage in its production processes and protection of natural resources for future generation. Social sustainability expresses enhancement of living conditions and working conditions of the employees, giving importance to the life quality of the customers, society and future generation (Gencoglu and Aytac, 2016).

Not only financial factors are considered for the developments of the companies, but also social and environmental factors should be considered. As a result, sustainable development has become an...
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important area for the companies. Managers of sustainable companies take into consideration some non-financial factors for their performances such as environment protection, corporate governance structure, human capital management, quality of management, human capital management, reputation, stakeholder relations (Lo and Sheu, p. 345, 2007). Most of the international institutions such as United Nations, G20 and OECD state that in order to obtain long term development and stability, problems such as climate change, exhaustion of natural resources, human rights violation should be solved and this might be done by the increasing the environmental, social and corporate governance implementations of the firms (PWC, 2011).

Sustainability reports include information about the companies’ non-financial activities including governance, environmental and social issues. The information that the sustainability reports contain might be explained in different topics: i) profile of the company, goods and services that the company provide, structure of shareholding, investor relations, ethics and sustainability approach. ii) financial structure of the firm, financial and operational information, creation of employment, shareholders, and new business opportunities. iii) customers and producers of the firm, responsibilities about goods and services. iv) environment policy of the firm, investments of the firm, the energy efficiency, energy usage in the firm, environmental impacts of the firm including water and waste management. v) employment, motivation and continuity. vi) learning and innovation, responses to environmental and social risks (Aydın, 2017, p.2310).

In the new world order, the companies have to consider not only the benefits of the shareholders but also the benefits of the society. The companies which only work for the profit maximisation for the expense of shareholders can not protect their competitiveness. The most important reason behind this is that the society give importance to the sustainability factors in the companies. Thus, companies should take into account the sustainability issues in their operations. The factors that push the companies in applying sustainability policies can be diversified. Borsa İstanbul juxtapose these factors in its sustainability report (BIST, 2014, p.19). Firstly, these companies have higher brand values and reputation. Secondly, with applying sustainable policies the companies will be able to decrease their costs and their profit will increase. For instance, low energy consumption, decreased raw materials waste are among the environmental sustainability factors that decrease the costs of the companies. Moreover, skilled labour prefers to work with those firms applying sustainability policies. Fourthly, by the help of the sustainability the companies can understand the expectations of the consumers. The consumers might want environment protection and the companies have to make their operations in line with this expectation. Fifthly, the financial institutions embrace sustainable finance and they can direct their investors to the companies that apply sustainability policies. This prompt the companies to apply sustainability policies. Lastly, the sustainable companies have longer life because of the policies they apply. For instance, those companies consider corporate governance principles and as a result they have higher corporate governance values. Thus, those companies have lower cost of equity, higher liquidity, and as a result they have higher service life.

The first sustainability indices in the world are created by Dow Jones in 1999 and FTSE in 2001. Borsa İstanbul has started to create BIST Sustainability Index since 2014. BIST Sustainability Index reflects the BIST firms’ approach to sustainability issue such as global warming, draining of natural resources, health, security and employment (BIST, 2019). The main aim of BIST is to present an index that enables to compare the sustainability performances of the firms and also to provide a benchmark for BIST firms. By the help of the sustainability index, the firms can evaluate themselves in terms of their performances and develop their risk management abilities for corporate sustainability, accountability