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Sustainability Report Disclosure and Profitability as a Strategy to Increase Future Firm Value in the Indonesian Banking Sector

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Abstract
This study discusses the impact of Sustainability Report Disclosure and Profitability on Future Firm Value. The sample of this research is banking companies listed on the Indonesia Stock Exchange in 2020. The sample size is 39 companies using the purposive sampling technique with the criteria of companies presenting sustainability reports in the company's annual report 2020. The analytical method in this study used simple regression analysis and moderated regression analysis. The results show that the Sustainability Report Disclosure affects Future Firm Value but Profitability does not affect Future Firm Value. In addition, Profitability does not moderate the relationship between the Sustainability Report Disclosure and Future Firm Value. Companies should report sustainability reports to reduce asymmetric information and investors to be able to study financial and non-financial factors because non-financial factors also have a significant influence in making investment decisions.

Keywords: Sustainability Report Disclosure, Profitability, Future Firm Value

JEL Classification: G21, M41, Q56

Introduction

Intense competition between one company and another in achieving maximum profit has triggered higher natural resource exploration. This is done without paying attention to the surrounding environment, both the balance of the environment, employees, ecosystems, and the company itself.

The regulations governing environmental management are Law Number 32 of 2009 which reads: "Companies that carry out their business activities in the field of and or related to natural resources are obliged to carry out social and environmental responsibilities". This regulation is supported by the regulation of Law Number 40 of 2007 Article 66 concerning all social and environmental responsibilities that must be reported by companies in the annual report. The public is increasingly aware of the negative impacts caused by the company in carrying out its operations over time, therefore business people are increasingly being demanded to be not only oriented towards maximizing profits but also being able to make a positive contribution to the surrounding environment.

The main purpose of establishing a business entity is to get a profit which will then be used to maintain the business or expand the business network. One of the business entities that have a crucial role in the economy is a bank. Banks carry out an intermediation function, collect funds from households, companies, and the central bank, and then channel them to companies, governments, and households that need loans [1, 2].

Through sustainable management reported in the sustainability report [3], stakeholders are interested in understanding how the company's approach and performance are sustainable in various aspects, especially economic, environmental, and social aspects, including the potential to create corporate value. Disclosure of environmental, social, and economic performance in annual reports or separate reports is to reflect the level of accountability, responsibility, and transparency of the company to investors and other stakeholders. The transparency of the company's management, both in the form of the level of non-compliance with mandatory disclosure of information and the level of voluntary disclosure of information, significantly affects the value of the company, because disclosure of information has been proven to provide positive benefits for investors, namely in the form of an increase in company value. Disclosure of this information is also important because of the limitations in obtaining information [4] by investors. Given that the capital market in Indonesia is semi-strong, all fundamental aspects can be reflected in the company's stock price.

The company's profitability is the company's ability to generate net income from activities carried out in the accounting period. Profitability can be proxied by return on assets which is a ratio to measure the company's ability to generate profits from investment activities and to measure management's ability to obtain overall profits. The greater the ROA, the greater the level of profit achieved by the company and the better the position of the company in terms of asset use. The value of the company is determined by the earning power of the company's assets. Positive results indicate that the higher the earning power, the more efficient the asset turnover and/or the higher the profit margin obtained by the company. This has an impact on increasing the value of the company.

Research on the disclosure of sustainability reports on firm value has been carried out by [5, 6, 7]. However, the results of these various studies are inconsistent. So, this study was conducted with the aim of re-examining the effect of sustainability report disclosure and profitability on future firm value.

Research Significance

This research is important because it uses sustainability report disclosure and profitability strategies to increase future firm value. Firm value measurement is modified in order to better measure future firm value. The results of this study provide a good strategy for the company to do so that the company's future is maintained because sustainability basically also discusses the company's future.

Literature Review and Hypothesis Development

Agency Theory

Jensen and Meckling (1976) define that agency relationship arises when one of the interested parties (as principal) hires someone who has knowledge (as agent) by delegating authority to manage and make decisions within the company. When the agent does not work in accordance with the expectations of shareholders, there is a conflict of interest that causes the company to incur agency costs to overcome it. This conflict is triggered by differences in the goals of each party. Agency theory also explains the existence of asymmetric information. As agents, managers must also provide correct and transparent information to stakeholders as principals regarding the actual condition of the company. Given that asymmetric information and conflicts of interest can harm the company [8].

Signaling Theory

Signal theory is a theory that discusses the rise and fall of prices in the market, so that it will have an influence on investor decisions. This signal is in the form of information about what management has done to realize the owner's wishes. One of the information that can be used as a signal is the disclosure made by an issuer. One of them is information about the disclosure of corporate social responsibility or CSR activities. This information is included in the company's annual report [9].

Stakeholder Theory

Stakeholder theory begins with the assumption that values are explicitly and undeniably part of business activities. Stakeholders are any group of people both inside the company and outside the company who have a role in determining the success of the company. Basically, the responsibility of the company is not limited to maximizing profits for the benefit of shareholders but more broadly, namely creating prosperity for the interests of stakeholders, namely all parties who have a relationship with the company and increase the value of the company. Therefore, stakeholder theory is generally concerned with the ways in which companies control [10, 11] the influence of these stakeholders [9].

Legitimacy Theory

Legitimacy theory deals with the relationship between organizations and society in general and postulates that a company exists if its values are compatible with the society in which it operates [12]. Legitimacy theory assumes that organizations must continually ensure that their operations comply with the norms of their respective communities so that to be considered "legitimate" by various stakeholders in society. Legitimacy status is critical to the survival of the organization in a broad community system including stakeholders and non-stakeholders. Unlike stakeholder theory, legitimacy theory focuses on the interaction between corporations and society and suggests that there is a "social contract" between an organization and the community in which it operates to secure a state. Under a social contract, companies must operate within the norms and expectations of the wider society, not just within the norms and expectations of investors. However, it is unsatisfactory for an organization to operate within a social contract alone. It also ensures that its activities are perceived as adequate to the societal expectations of the various stakeholder groups which signify its legitimacy (from a signaling theory perspective).

Firm Value

The value of the company can be expressed as the selling price of the company approved by the prospective buyer, the higher the value of the company, the greater the prosperity of the owner of the company. By maximizing the value of the company, it means maximizing the prosperity of the company owner. The main purpose of financial management is for managers to maximize the values of the company. Management has the main goal of maximizing the welfare of shareholders by maximizing the company's share price [6, 13].

Sustainability Report Disclosure

Sustainability Report (SR) is a sustainability report consisting of three dimensions: environmental dimension, social dimension and economic dimension. SR is a practice measurement, disclosure, and corporate accountability to both internal and external stakeholders for the company's performance towards sustainable goals. In Indonesia, SR disclosure is still voluntary, meaning that the government has not required companies to issue SR. Internationally, the GRI guideline version G4 is the guideline currently used for compiling PK disclosure reporting that is recognized worldwide. GRI contains disclosures of governance and performance along with the impact of the three aspects of the company's performance, namely environmental impacts, social impacts and economic impacts generated by the company as well as documents required for disclosure under certain conditions that must be met. Through this uniformity, it is hoped that reports disclosed by companies will be more accountable and transparent to the public [8].

Profitability

Return on Assets (ROA) is a ratio that shows the results (return) on the number of assets used in the company. ROA is the most important ratio among existing profitability ratios. The higher the profit generated, the higher the ROA, it means that the company is more effective in using assets to generate profits. The ROA figure is said to be good if the value is more than two percent [9].

Hypothesis Development

By disclosing the sustainability report on the company's website, it is hoped that investors can learn that this company has a strong commitment to business sustainability. Research [5] supports this statement. However, research [7] shows mixed results regarding this sustainability disclosure, which is more dominant in giving a negative and insignificant effect on Tobin's Q. So, the first hypothesis of this study is:

H_1: There is a positive effect of sustainability report disclosure on future firm value.

Companies that have large profits are expected to have high company values as well. Investors' expectations of course are profits that are reflected in the company's stock price. Research related to the effect of profitability on firm value is very diverse ranging from [14–17]. From some of these researchers, the dominant result is the positive and significant effect of profitability on firm value. Then the second hypothesis of this research is:

H_2: There is a positive effect of profitability on future firm value.

Companies that carry out sustainability disclosures and have large profits will be the dream of investors. Of course, investors will not miss investing in the company. It is suspected that profitability can strengthen the effect of sustainability report disclosure on future firm value. Then the third hypothesis of this research is:

H_3: Profitability strengthens the effect of sustainability report disclosure on future firm value.

Methodology

Population and Sample

The population in this study are banking companies listed on the Indonesia Stock Exchange in 2020. The sampling technique uses purposive sampling with the criteria in accordance with table 1.

Table 1: Sample Selection Criteria

No.	Criteria	Total
1	Banking companies on the Indonesia Stock Exchange in 2020	45
2	The company presents a sustainability report in the company's 2020 annual report	(6)
	Number of companies that meet the criteria	39

Source: Research results, 2021

Based on [18], the minimum number of samples is twenty-six for multiple linear regression to detect a maximum coefficient of determination of 0.3 between two independent variables. Because the study uses two independent variables, based on the criteria in the study [18] with a coefficient of determination between 0.2 and 0.3, the number of samples ranged from 26-42 samples. The number of companies that meet the criteria are 39 companies, so it has met the minimum sample size.

Variable Operational Definition

In this study, future firm value is the dependent variable and is measured using Tobin's Q. Tobin's Q in this study is calculated by t+1, which is for calculating disclosure and profitability in year t, then Tobin's Q is calculated in year t+1. This is because the disclosure of the Sustainability Report and profitability is considered to affect the value of the company in the following year. The following Tobin's Q ratio was used by [7] and then modified by the researcher to be:

$$Tobin's\ Q = \frac{Equity\ Market\ Value_{t+1} + Total\ Debt_{t+1}}{Total\ Asset_{t+1}}$$

The first independent variable is the sustainability report disclosure. Sustainability Report Disclosure is a form of corporate responsibility in publicizing the company's performance as a follow-up to the company's environment. This variable uses the GRI G4 indicator proxy which has 91 items consisting of 3 categories, namely social categories (including human rights, labor, production, and community responsibility), economics, and the environment. This variable uses a dummy variable, a ratio scale with the following formula [8, 9]:

$$SRD = \frac{\sum x_i}{n}$$

SRD: Sustainability Report Disclosure

$\sum x_i$: Number of items disclosed by the company

n: Total number of items

The second independent variable used in this study is profitability. High profitability is expected to increase firm value. Thus, the use of profitability as a moderating variable in this study is expected to strengthen the relationship between sustainability report disclosure and future firm value. The company's profitability is calculated using the formula [9]:

$$ROA = \frac{Net\ Income}{Total\ Asset} x100\%$$

Regression Analysis

The following is the regression equation used in this study:

$$FFV = a + b_1SRD + b_2ROA + e$$

As well as the analysis of moderated regression analysis [19], with the following equation:

$$FFV = a + b_3SRD + b_4ROA + b_5SRDxROA + e$$

Information:

FFV: Future Firm Value

SRD : Sustainability Report Disclosure

ROA: Profitability

SRDxROA: Interaction between Sustainability Report Disclosure and Profitability

a: Constant

b1…b5: Regression coefficient

e: Error

Hypothesis Testing

Hypothesis testing using SPSS program assistance where if the value of Sig < α then there is a significant effect between independent variables on dependent variable [20-22].

Analysis Results and Discussion

Analysis Results

Based on the results of regression testing on both models, it can be seen the summary of the research results in table 2.

Table 2: Summary of Test Results

Variable	Model 1			Model 2		
	B	t	Sig.	B	t	Sig.
SRD	0,637	2,018	0,048	0,570	1,165	0,240
ROA	-0,879	-0,922	0,320	-0,880	-0,972	0,345
SRD x ROA				-1,298	-0,720	0,493
R Square	0,215			0,286		

Source: Processed data results, 2021

The positive and significant effect of sustainability report disclosure on future firm value is in accordance with the first hypothesis proposed, so the first hypothesis is accepted. The results of the study are in line with research [5] but not in line with research [7]. The value of the company will be guaranteed to grow sustainably if the company pays attention to the economic, social, and environmental dimensions because sustainability is a balance between economic, environmental, and community interests.

When linked to theory, the results support the stakeholder theory and legitimacy where the company not only fulfills its own needs but also its stakeholders by continuously ensuring that the activities carried out are in accordance with the boundaries and norms of the society in which the company operates. As well as the company's awareness of voluntarily disclosing sustainability report for its economic, environmental, and social activities, stakeholders get the information they need for decision making which will have an impact on increasing the reputational capital of the sustainability report issuing company, meaning that the value of the company increases.

The negative and insignificant effect of profitability on future firm value is not in accordance with the second hypothesis proposed, so the second hypothesis is rejected. The results of the study are in line with research [15, 23] but not in line with research [16] and [24]. This is because the firm value of the banking sector is still not dominantly influenced by bank profits, but rather on the trust and big name of the bank.

The results of this study the moderating variable of profitability using ROA show a discrepancy between the results and the hypothesis. The third hypothesis states that profitability moderates the relationship between sustainability report disclosure and firm value, after being tested, the results and the hypothesis show a discrepancy, namely profitability as a moderator does not have a significant effect on firm value. Although the company has a good ability to seek or generate a good increase in profits but the profitability as proxied using ROA is not able to strengthen the relationship between sustainability report disclosure and future firm value in banking companies listed on the Indonesia Stock Exchange year 2020. This shows that the higher the ROA is not able to increase the sustainability report disclosure and unable to increase the value of the company, on the contrary, the smaller the value of ROA is not able to reduce the disclosure of sustainability report and company value.

In the current era, the economy must be more advanced and requires investor support. The main purpose of establishing a business entity is to earn profits which will then be used to maintain a business or expand a business network [25].

From the test results, it can be seen that only the disclosure of the sustainability report has a significant effect on future firm value. So, the company must implement a strategy to be able to increase the value of the company not only now, but also for the future. Strategies that can be applied include:

1. Management can submit a sustainability report through a standalone report in order to improve the image in the eyes of interested parties, especially investors, or visualize the company as a good corporate citizen.
2. Not doing green-washing which is a legitimacy strategy implemented by the company through a voluntary sustainability report to create a corporate image that upholds social, economic, and environmental values. Green-washing includes carefully selected practices that reveal only positive social and environmental impacts that will bias and misleading report users [26].
3. Implementing its business policies and strategies to match sustainable development goals and existing social norms.
4. Using the TRIESKA (Transparent, Reliable, Independent, Evergreen, Sustainable, Knowledgeable, and Adorable) strategy in presenting the sustainability report [3].

It should also be noted that such disclosure can reduce asymmetric information because the report can provide non-financial information. This non-financial information also turns out to be important and can bridge between investors and companies so that the disparity of information held is not too much different.

Conclusions and Recommendations

Conclusions

Based on the partial test, it can be concluded that the Sustainability Report Disclosure variable affects the future firm value while profitability does not affect future firm value. Profitability is not able to strengthen the relationship between sustainability report disclosure and firm value in banking companies listed on the Indonesian stock exchange year 2020. The Sustainability Report Disclosure has the greatest influence on Future Firm Value. There are several strategies that banks can use to increase future firm value, such as standalone reports, not doing green-washing, and still referring to sustainable development goals.

Recommendations

Based on the results of this study, companies should report sustainability reports consistently every year so that interested parties can get the information needed for decision-making while reducing asymmetric information. For investors to be able to study financial and non-financial factors because non-financial factors also have a significant influence in making investment decisions. For this reason, further researchers can add variables that are predicted to affect the relationship between sustainability report disclosure and profitability to future firm value. In addition, other researchers can extend the observation period because this research is only limited to 2020.

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