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Sustainable Performance and ESG Attractiveness in Increased Value of Banking Companies

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Abstract

Increasing company value should be in line with ESG investment, but its implementation is still minimal. The aim of this research by look at other dimensions such as profitability, liquidity, and ESG in banking companies. The research uses secondary data obtained based on annual and financial reports as well as company value in banking companies listed on the Indonesia Stock Exchange in 2020- 2022. The method used in collecting samples in this research is purposive, so the sample is ten banking companies in Indonesia. Multiple linear regression analysis test with Gretl software. The results show that the profitability variable has a positive and significant effect on firm value, but the liquidity variable and ESG variables do not have a significant impact on firm value. By informing sustainability reports containing financial and non-financial information, information regarding company performance can be provided and accounted for to shareholders to satisfy shareholder demands.
Keywords: ***ESG; Firm value; Profitability; Liquidity***

JEL Classification: M48

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INTRODUCTION

In maintaining the company's existence from business competition in the current free market era, the company must have the right strategy to continue to increase its value (Harahap et al., 2019). Apart from that, profitability indicates that the company will share greater results with investors and is used to measure the ability to earn profits (Ichsan et al., 2021) and the company's condition. It can produce appropriate analysis and decision-making to increase firm value. The results of profitability calculations are useful for management and investors to assess a company's suitability in receiving its cash flow.

There are several indicators to measure profitability ratios, including profit margin as gross, operating, and net, return on assets, and equity (Choiriyah et al., 2020). For banks, keeping profitability stable and even increasing is very important. The reasons are to fulfill obligations to shareholders, improve investors' attractiveness in investing capital, and increase public confidence in saving excess funds held in banks (Ekasari & Noegroho, 2020). It must be able to compete to maintain the survival of their companies to gain profits. These profits can be used to pay all types of operational costs. Apart from covering the obligations the company must pay, the profits obtained can be used to invest in company expansion (Fajaria & Isnalita, 2018). When making decisions, considering profit generation is very important.

The liquidity ratio is often also said to be the working capital (current assets ratio) to measure a company's liquidity (Jasmani, 2019). Measurement and evaluation of this ratio can be carried out over several periods so that developments in liquidity level can be seen from time to time (Durrah et al., 2016). The market will respond positively to the ability to fulfill its short-term obligations. It is smooth in fulfilling its commitments, giving investors confidence in investing funds in the company.

One of the things banks do is to increase their firm value and liquidity level to fulfill their obligations and maintain performance. The greater the decrease in the liquidity ratio, the greater the reduction in the value of the shares in the company and vice versa. For this reason, there is a need for good liquidity management in each company. Companies that fulfill liquidity well will have good company management performance, and attract investors (Sondakh, 2019). This gives investors confidence to own shares in the company so that the company's value will also increase.

Along with the very rapid development of business, every business activity is required to prioritize company profits; companies must look at the impacts that will arise due to the operational activities (Kim, 2021). It is not uncommon for a company's actions to have a negative impact on the environment. Thus, forest destruction is a form of decline from an environmental aspect, even though the economy is experiencing improvement (Khmara & Kronenberg, 2018).

Currently, investors focus on financial and non-financial performance, as well as on environmental, social, and good governance aspects, and use this as an indicator in determining investment decisions (Nelson, 2020). The implementation of Environmental, Social, and Governance (ESG) is becoming a priority for several companies in Indonesia to encourage sustainable business. The investment trend in companies that implement ESG also tends to increase, according to Mandiri Institute research released on November 3, 2022 (Cara, 2023). The issuance of global ESG bonds can raise US$930 billion in funds in 2021. The implementation of ESG-based investment in Indonesia is supported by an ESG-based stock index, IDX ESG Leaders (IDXESGL), and collaboration with Sustainalytics to provide ESG data.

In Indonesian banking companies, ESG Investment implementation has been implemented since 2009 with the inclusion of these criteria in banking financial reports. However, up to now, not all banks in Indonesia have implemented ESG Investment. Investment activities taking into account ESG investment in companies in Indonesia, especially in the banking world (those in the form of BUMN), have yet to be widely implemented. Measuring the influence of ESG is considered important because of the strategic role of banking (especially BUMN) in making sustainable national development a success, one of which focuses on prioritizing environmental and social conditions and good governance (Wuaten, 2023). Apart from that, every company, including banking companies,

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in carrying out its operational activities has a financial goal: achieving maximum profitability to increase firm value. Companies in the financial sector are expected to not only focus on profit aspects but also be able to integrate ESG into business processes, which are outlined in the disclosure of sustainability reports to implement responsible and sustainable business practices.

Stakeholder theory explains that every stakeholder has the right to obtain decision-making information (Harrison, Jeffrey S. et al., 2015). The main objective is to help company management increase value creation from the activities carried out and minimize the damage to stakeholders. ESG disclosure is a new idea that can be implemented in various lines and can also evaluate the company's role in carrying out activities according to the stakeholder's wishes (Chouaibi & Affes, 2021). For investors, information is an important element because it provides information, notes, or describes the past, present, and even future conditions regarding the progress of the company's business and how the market is (Frias-Aceituno et al., 2014). Signal theory explains that implementation and disclosure are some signals companies give to investors and shareholders (Bae et al., 2018). Published information will provide positive or even negative signals for investors in making decisions. It shows that management has made financial reports transparent to avoid fraud and deception.

Firm value is investors' perception or impression of the company's success in terms of share prices (Setiadharma & Machali, 2017). If the share price is high, it is the same as depicting a high firm value. As time goes by, the benchmark for firm value is not only based on financial, but also non-financial factors have become the benchmark for investors to see the value of a company (Naveed et al., 2020). Measuring firm value is more complex by looking at all aspects of what the company does, because investors are assessed in the present and prospects for the future. In companies going public, the higher the share price shows the company's value in getting potential investors (Hidayah & Rahmawati, 2019). Several financial ratios can measure a company's market value: price-earning ratio, market-to-book ratio and sales ratio, price/cash flow ratio, and Tobin's Q.

The Effect of Profitability on Firm Value

Profitability is result of management policies and decisions is the ability to generate net profits from activities carried out in the accounting period (Tamulevičienė, 2016). A company with a high level of return on investment can be said to be successful or have good performance. On the other hand, if the profit obtained is relatively small or has decreased compared to the previous period, then it is said to have poor performance. Profit must be evaluated periodically and actually compared to planning (Menicucci & Paolucci, 2016). This research uses a profitability ratio in the form of ROE to reveal the effectiveness and efficiency of capital management by the company (Supriyadi & Terbuka, 2021).

Profitability is the financial achievement of a company based on its performance measures, it is even said to be the ability to create net profits from activities during the accounting period. Increasing profitability can reflect an increase in efficiency within the company, ultimately improving performance. Companies with good performance can be seen through their profit generation, thereby increasing investors' confidence who want a return on their investments. Investors' interest in investing is in line with the signals they receive about companies that have good performance, which then gives a positive view of market perception, and the value of the company will also increase. Previous research that

supports building the hypothesis in this research, namely (Tahu & Susilo, 2017), (Setiawanta et al., 2021), and (Sukmawardini & Ardiansari, 2018), obtained the results that profitability on firm value has a significant effect and a positive direction. Meanwhile, according to Budisaptorini (2019), profitability does not significantly impact firm value.
H_1 = Profitability influences on firm value

The Effect of Liquidity on Firm Value

Liquidity is defined as assets that can quickly be converted into cash according to current market prices (Al Nimer et al., 2015). Companies that need funds to pay off their obligations when they fall due can create a bad perception for shareholders, even resulting in a crisis of confidence among various stakeholders. The liquidity ratio can predict a company's ability to meet its short-term obligations by comparing its current assets with its current liabilities (Madushanka & Jathurika, 2018). This ratio is important because failure to pay debts can lead to bankruptcy (Rashid, 2018). Company owners can assess management's ability to manage the funds entrusted through the liquidity ratio. Investors need liquidity ratios, especially regarding cash dividend distribution, while creditors need them to guide the return of principal loans with interest. Creditors and suppliers will usually hand over loans/debts to companies with high liquidity.

The liquidity ratio shows the relationship between a company's current assets and liabilities, so this ratio shows its ability to meet due debts. Liquidity is one of the factors used to measure a company's ability to pay the obligations that must be completed. This will greatly impact the company's value in front of investors when making decisions. High liquidity indicates that the company is in good condition and can meet its short-term obligations. Rising share prices will certainly increase the value of the company. Previous research conducted by (Jihadi et al., 2021) and (Reschiwati et al., 2020) shows that liquidity has a positive effect on firm value. Meanwhile, (Cheung et al., 2015) and (Tui et al., 2017) show that liquidity has a negative effect on firm value.
H_2 = Liquidity influences on firm value

The Influence of ESG on Firm Value

Since ancient times, we have known about Corporate Social Responsibility (CSR). However, many companies are currently switching to ESG due to its lack of CSR metrics so that corporate responsibility measurement becomes more accurate. Environmental, Social, and Governance include information about resource use, emissions, company innovation, corporate social performance such as labor, human rights, product responsibility, community, corporate governance, CSR strategy, and stakeholders (Taliento et al., 2019). Besides its more accurate measurements, ESG focuses on three dimensions, environmental, social, and governance, which are broader than CSR. ESG focuses on reports that make a company a responsible company, not just impressive reports but demanding metrics and quantification of the company's responsibility towards its surroundings (Clementino & Perkins, 2021).

The meaning expressed is that companies should not ignore social and environmental responsibilities to gain legitimacy for their actions in terms of trust and support from the community. This understanding indicates the importance for business actors to maintain

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harmonization in aspects of the economy, environment, society, and government. Companies that disclose ESG well will be more attractive to financial investors and other stakeholders because they will provide long-term benefits and even be able to expand networks (Li et al., 2018). According to (Whitelock, 20115), ESG focuses more on activities related to surrounding ecological aspects, interactions with the social environment, and internal control systems to achieve company goals while fulfilling the desires of stakeholders.

ESG is a non-financial indicator of a company that includes matters related to sustainability, and social and corporate governance capabilities (Santamaria et al., 2021). With ESG, it shows the company's performance and environmentally responsible image so that it will increase investors' assessment of investing in the company as well as public trust that the company is running by existing norms in society. In line with what is stated in stakeholder theory, companies must prioritize profits and provide optimal benefits to shareholders and interested parties, thus requiring companies not to ignore their social responsibilities. The existence of a company concerns the public's view of its operational activities based on the prevailing value system.

Good governance can increase share prices because investors anticipate that less cash flow will be diverted, thereby bringing profits to them in the form of interest or dividends. Social disclosure can display a sense of responsibility towards the surrounding environment. This receipt can encourage investors to make investment decisions by increasing company value. (Xie et al., 2019), even explained that increasing corporate awareness of implementing sustainability strategies and disclosing ESG information will provide opportunities for transformation in management and business models, thereby influencing company value.

Previous research by (Yen-Yen, 2019) and (Yoon et al., 2018) showed that ESG significantly positively affected firm value. Along with improving corporate governance, it can provide evidence for investors of increasing value that is better than before, even compared to others. The increasing ESG index allows investors to lead companies toward sustainable business, especially in realizing aspects of transparency, openness, and reporting (Aboud & Diab, 2018) (Karwowski & Raulinajtys-Grzybek, 2021). Disclosing the company's ESG responsibilities can create a good reputation for the company. However, research by [6] shows that ESG disclosure negatively affects firm value.
H_3 = ESG influences firm value.

RESEARCH METHOD

This research uses quantitative with numerical data and analyzes it to show valid results (Albers, 2017). In analysis, the panel data method is considered appropriate because it involves a combination of time series and cross-sectional data, so the Gretl Statistical Software checks it. This statistical process consists of carrying out secondary data collection, testing hypotheses, and identifying cause-and-effect relationships. The sample uses banking companies listed on the Indonesia Stock Exchange that implement ESG, with a sample size that meets the criteria of 30 companies from 2020-2022. The secondary data used are financial and annual reports, which are accessed through the official website www.idx.co.id to obtain information. Firm value is the dependent variable, and the independent uses profitability, liquidity, and ESG. Variable measurements are summarized in the presentation of Table 1.

Table 1. Operational Definition of Variables

Variable	Definition	Formula
Firm Value (Y)	a condition achieved by managers in managing company resources, which is used as an illustration for the public and investors and is usually related to shares (Safitri et al., 2020)	$PBV = \frac{share\ price}{\text{book value per share.}}$
Profitability (X1)	The ability to generate profits by using company resources such as sales, assets, and capital (Ilham et al., 2022)	$\text{ROE} = \frac{net\ profit\ after\ tax}{\text{shareholder equity.}}$
Liquidity (X2)	The ability to fulfill its short-term obligations by using current assets to be able to pay its debts on time (Dirman, 2020)	$\text{CR} = \frac{current\ asset}{\text{current liabilities}}$
ESG (X3)	a series of considerations related to environmental, social, and governance criteria that can influence a company in carrying out its business strategy and creating value in the long term (Brooks & Oikonomou, 2018)	ESG index $= \frac{ESG\ disclosure\ value}{\text{maximum total disclosure}}\ x\ 100\%$

Source: GRETL Output Results

Model:

$$MV_{it} = \alpha_0 + \beta_1 PRO_{it} + \beta_2 LI_{it} + \beta_3 ESG_{it} + \varepsilon_t \quad (1)$$

Information:

MV_{it} = Firm Value
PRO_{it} = Profitability
LI_{it} = Liquidity
ESG_{it} = ESG
ε_{it} = Residual
each i and t indicates a company and period.

RESULTS AND DISCUSSION

Table 2 is taken from the Gretl software and used as general observations of research variables. Using Gretl software, there are three ways to determine the best regression model to use, namely the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test.

Table 2. Descriptive Statistic

Variables	Min	Max	Mean	Standard Deviation
X1	0.370	1.950	0.797	0.380
X2	1.100	6.310	2.130	1.670
X3	2.090	3.560	2.130	3.560
Y	0.110	1.710	0.814	0.405

Source: GRETL Output Results

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The banking industry shows that liquidity and ESG values have volatile money values and vary greatly between companies. In analyzing panel data, the first thing to do is determine the estimation model to choose the best regression model to use.

Table 3. The Best Model Selection Parameters

Items P-Values	Panel Diagnostic Test
	Model
Chow test	0.6824
Lagrange Multiplier test	0.0695
Hausman test	0.0626

Source: GRETL Output Results

Table 3 shows that the Chow test p-value is greater than 0.1, so the selected model is the Ordinary Least Square model or the Pooled Least Square model, and the testing continued with the LM test. LM test to determine the difference between the PLS model and the Random Effect model. If the p-value is < 0.1, then the selected model is PLS (and continues with the classical assumption test). In contrast, if the p-value is more than 0.1, then the model chosen is RE (and continues with hypothesis testing). Based on the test results, the p-value of the LM test is less than 0.1, so the selected model is PLS and the test continues with the classical assumption.

Table 4. Classical Assumption Test Results

Variable	VIF	Heteroscedasticity	Autocorrelation
X1	1,13		
X2	1,21		
X3	1,10		
Prob>chi2		15,366	
P-value		0,1836	
DW p-value			0,267834

Source: GRETL Output Results

The results of Table 4 show there is no VIF value > 10, which proves that there is no multicollinearity between variables. White's test method was chosen for heteroscedasticity. The p-value is more than 0.1, so there is no heteroscedasticity in the data and no similarity in variance. The final step is the autocorrelation test to find out whether or not there is a correlation between the error variable in a certain and previous period. The way to detect whether there is autocorrelation is to compare the Durbin-Watson (DW) value. If DW > 2, then the autocorrelation is negative, whereas if DW < -2, then the autocorrelation is positive, but if DW > -2 and DW < 2, then there is no autocorrelation as seen in a test that a p-value of 0.267834. Hypothesis testing in this research uses the t-test with the PLS model regression.

Table 5. Hypothesis Test Results

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	0,566889	0,561417	1,010	0,3219	
ESG	−0,0508561	0,176703	−0,2878	0,7758	
Profitability	0,604106	0,172742	3,497	0,0017	***
Liquidity	−0,0442931	0,0375143	−1,181	0,2484	

Mean dependent var	0,813667	S.D. dependent var	0,404598
Sum squared resid	2,667249	S.E. of regression	0,320291
R-squared	0,438154	Adjusted R-squared	0,373326
F(3, 26)	6,758680	P-value (F)	0,001608
Log-likelihood	−6,265908	Akaike criterion	20,53182
Schwarz criterion	26,13661	Hannan-Quinn	22,32484
rho	0,030999	Durbin-Watson	1,156263

Notes: *p < 0.10 (weakly significant); **p < 0.05 (significant); ***p < 0.01 (highly significant)

Source: GRETL Output Results

Table 5 shows mixed results where the profitability variable is quite consistent in increasing firm value, as evidenced by the p-value < 0.01, which means it has a significant positive value. In contrast, the ESG and Liquidity variables are not significant to market value. It is confirmed by the finding that the ESG variable has a p-value < 0.10, and this also applies to the liquidity variable where the p-value is < 0.10.

The first hypothesis, according to the research results is accepted, which means that profitability in banking companies has a positive and significant effect on firm value. Consistent with (Sari & Sedana, 2020), (Margono & Gantino 2021), and (Markonah et al., 2020). Profitability of course directs the balance between the company's income and ability to generate profits from its various operational activities so that this ratio clearly expresses the effectiveness and success of its management, and is also important to strengthen its financial position. Stable profitability provides information to investors that the company is in good condition and shows the ability of work to manage assets appropriately. The investors will be confident and there will be a positive return from the investment provided (Munawar, 2019).

Furthermore, the second hypothesis is rejected, which means that liquidity in banking companies does not affect firm value. In line with research expressed by (Chen et al., 2021) (Wulandari, 2013), (Zuhroh 2019), and (Afinindy et al., 2021) liquidity on firm value has a negative influence because one aspect of current assets is not utilized, causing high liquidity which has a negative impact on investors. When there is an increase in company liquidity, it has the potential to reduce firm value. It means that when there is a change in liquidity, the firm value will not have much of an impact on the change.

The research expressed the third hypothesis was rejected, which means that ESG in banking companies does not affect firm value. Following (Wong et al., 2021), (Junius et al., 2020), (Constantinescu et al., 2021), and (Busch et al., 2023) ESG scores do not affect firm value because there are still many measurements that have not been implemented optimally by companies. Quoted

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from the International Association for Public Participation Indonesia website (2023), the lack of ESG implementation in Indonesian companies lies in the problem of lack of information, feeling they need more resources to implement it, and continuing to delay and need more resources. Apart from that, ESG is considered expensive in terms of consultant fees and very complex. Economic uncertainty is one of the problems in implementing ESG, causing companies to manipulate ESG data and greenwash or provide false ESG information. It will have an impact in the future on decreasing firm value. Only a few banking issuers implement ESG. BBRI has the best ESG score of 18.84 with low ESG risk. The portion of ESG credit distributed is very large, namely 67.2 percent of the total. Credit distributed mainly to the micro, small, and medium enterprise segment worth IDR 652.9 trillion also includes green credit including environmentally sustainable projects, resource management and land use amounting to IDR 53.5 trillion, green transportation IDR 12 trillion, renewable energy IDR 5.7 trillion, and other green financing IDR 8.2 trillion. Followed next by BBNI recorded an ESG score of 25.47 in the medium category. The sustainable credit distributed amounted to IDR 175.9 or 27.2 percent of the total financing, including green credit for pollution prevention IDR 2.9 trillion and renewable energy IDR 9.7 trillion. The distribution was also in the segment of management of biological natural resources and environmentally sound land use amounting to Rp. 18.9 trillion, as well as to social aspects amounting to Rp. 118.9 trillion.

CONCLUSION

The research results have shown that a company's performance is not only seen from the liquidity side but can be seen through its profitability, where increasing company profitability will increase returns or returns to investors. The greater the profit obtained, the higher the rate of return to shareholders through dividends and so on will encourage an increase in the company's share price. Not only based on financial performance in looking at firm value but currently, non-financial performance is also the main thing, including ESG. Research shows that there is no influence of ESG on firm value, which indicates that awareness of the suitability of ESG factors to applicable standards is still so lacking that the information in disclosure has no impact on company assessment. Referring to signaling theory, the information contained in ESG disclosure can be used as a signal that reflects the company's activities and performance and good ESG means that every activity or operational activity complies with its standards. Finally, the company has met the expectations and interests of various stakeholders, both internal (employees and shareholders) and external (government, related institutions, and society). If a company implements ESG well, then this will also lead the company towards a better economy. So, it can be said that implementing ESG can provide benefits for companies, such as increasing the company's reputation and minimizing risks that occur when carrying out business activities such as rejection from the public and work accidents. In signaling theory, liquidity shows the company's sufficient funds to pay off all obligations that are due in the short term. The limitation of this research is still insufficient in showing how these variables can increase a company's value and the samples only banking companies so it does not represent all companies, especially companies that implement ESG.

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