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The Influence of Profitability in Moderating the Impact of Sustainability Report on Firm Value

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ABSTRACT

This research aims to examine the influence of profitability in moderating the impact of sustainability reports on firm value. This explanatory research used population of firm listed on the Indonesia Stock Exchange (BEI) obtained from www.idx.co.id in 2020-2022. A sample of 36 firms determined based on the purposive sampling method. Documentation techniques were used to collect research data which is then analyzed using the Moderated Analysis Regression (MRA) analysis method. The research results show that sustainability reports do not have a significant effect on firm value. Profitability has a significant impact on the relationship between sustainability reports and firm value. Thus, it can be concluded that although sustainability reports do not have a significant influence on firm value, profitability plays a significant role in strengthening the influence of sustainability reports on firm value.

Keywords: firm value, profitability, sustainability report.

1. INTRODUCTION

Firm value describes a condition that has been achieved by a firm which reflects public trust in the firm's performance over several years, starting from when the firm was founded until now (Rudangga & Sudiarta, 2016). Firm value reflects investors' perceptions of the firm, which is often linked to share prices. The higher investors' trust in a firm, the more investors have a tendency to increase the value of their investment in that firm, which will increase the firm's share price (Ng & Daromes, 2016). Investors view that the increase in firm share prices resulting from investment activities is a management achievement that is expected to be able to generate profits in the future and improve the welfare of shareholders.

PT Sido Muncul Herbal and Pharmaceutical Industry Tbk. (SIDO) succeeded in recording a consistent increase in net profit during 2018-2020. In 2020 SIDO posted a net profit of IDR 934.02 billion, an increase compared to 2019 of IDR 807.69 billion and 2018 of IDR 663.85 billion. The increase in net profit earned caused SIDO's share price to increase from 2018 amounting to IDR 270 to 2020 reaching IDR 805. Apart from that, SIDO also succeeded in getting the 2019 Corporate Image Award with The Best and Excellence Rating from Frontier Consulting Group on May 27 2019, causing SIDO's share price to increase for 2 (two) weeks (www.idx.co.id). This phenomenon explains that the firm's ability to generate profits can increase investors' confidence in investing, thus encouraging an increase in the firm's share price.

The triple bottom line (3P) concept (Elkington, 1997) has changed the paradigm regarding firm orientation to maximize profits. According to this concept, companies cannot be separated from their environment so they need to balance profit, society and the environment (planet). Law

Number 40 of 2007 Article 74 concerning Limited Liability Companies (PT), requires companies in Indonesia that carry out business activities in the field and/or related to natural resources to carry out social and environmental responsibilities. Companies that do not carry out their social and environmental responsibility obligations will be subject to sanctions in accordance with statutory provisions.

Disclosure of sustainability reports has a positive impact on the firm because it will be trusted by stakeholders and known by the wider community so that it can influence the firm's financial performance. Financial performance as measured by Return On Assets (ROA) explains the firm's ability to generate profits by using the firm's total assets to finance the firm (Fadilla & Yuliandhari, 2018).

Research conducted by Suaidah (2020) and Rahmah et al. (2018) shows the results that disclosure of sustainability reports has a significant positive effect on a firm's financial performance. Different results were found in research conducted by Fadilla & Yuliandhari (2018) and Sejati & Prastiwi (2015), which found that disclosure of sustainability reports had no effect on financial performance.

Research on the moderation of profitability on the relationship between sustainability reports and firm value was conducted by Budiana & Budiasih (2020) and Purwanti (2018) who found that profitability was able to strengthen the positive influence of sustainability reports on firm value. In contrast to the results of research by Kusuma & Priantinah (2018), they found that profitability moderation was not able to strengthen the positive influence of sustainability reports on firm value.

The inconsistency regarding the results of previous research is the motivation for this research to re-examine the role of profitability in moderating the influence of sustainability reports on firm value in companies listed on the Indonesia Stock Exchange (BEI) for the period 2020 - 2022. This research is important because it is related to the firm's objectives, namely generate profits in friendly ways to realize the prosperity and sustainability of the universe.

This research problem is formulated as follows:

1. Does the sustainability report affect firm value?
2. Does profitability moderate the influence of sustainability reports on firm value?

The objectives of this research are as follows:

1. Test the effect of sustainability reports on firm value.
2. Test the ability of profitability to moderate the influence of sustainability reports on firm value.

2. THEORETICAL BASIS

Stakeholder theory was put forward by Cornell and Shapiro (1987) which complemented the findings of Titman (1984), by looking at the implicit claims of a firm. The main goal of stakeholder theory is to help corporate managers understand their stakeholder environment and carry out environmental management more effectively. The broader aim of stakeholder theory is to help corporate managers increase the value of the impacts of their activities, and minimize losses for stakeholders.

Freeman (1984) believes that a stakeholder is a person or group of people who are influenced and influence the firm's process in achieving its goals. A firm is not an entity that only operates for its own interests, but must provide benefits to its stakeholders, such as shareholders, creditors, consumers, suppliers, government, society, analysts and other parties (Ghozali & Chariri, 2007). Thus, the existence of a firm is greatly influenced by the support provided by stakeholders to the firm.

Spence (1973) explains the signal theory that the owner of the information provides signals in the form of information that describes the condition of the firm which is useful for investors.

Signal theory is an explanation for information asymmetry because management has more information about the firm's prospects. In an effort to avoid information asymmetry, companies provide signals in the form of information to investors in a transparent manner.

Firm value is an investor's description of the manager's level of success in managing the firm's entrusted resources, often related to share prices (Silvia, 2019). The higher investors' trust in a firm, the more investors have a tendency to increase the value of their investment in that firm, which will increase the firm's share price (Ng & Daromes, 2016).

According to Rizaldi (2019) profitability is a firm's ability to generate profits with all the capabilities and resources it has such as cash, capital, sales, number of employees, and number of branches, and others. Profitability can influence firm value, because the higher the profitability value, the more it shows that the firm is able to manage its resources which can provide returns to investors. Potential investors will carefully analyze the firm's smooth performance and ability to make a profit, because investors expect dividends and the market price of their shares (Hendiawan, 2020).

Sustainability reporting is the practice of measuring, disclosing and holding companies accountable to both internal and external stakeholders regarding the firm's performance in achieving sustainable development goals (Dewi & Pitriasari, 2019). Disclosure of sustainability reports has a positive impact on the firm, namely it can improve the firm's financial performance. Companies that disclose sustainability reports will be trusted by stakeholders and known by the wider community, thereby increasing profitability and strengthening the influence of sustainability reports on firm value.

Companies that disclose sustainability reports want to demonstrate the firm's commitment to social and environmental issues to stakeholders as well as demonstrate transparency and get feedback on the firm's performance in responding to demands for information from stakeholders. Sustainability reports will increase public trust in the firm so that it can increase firm value (Weber et.al., 2008). Research by Budiana and Budiasih (2020) found that sustainability reports have a positive effect on firm value. Based on this description, the following hypothesis can be developed:

H1: Sustainability Reports influence Firm Value.

According to signal theory, the higher the growth experienced by a firm, the more positive value it will transmit to investors. The growth of a firm can be seen in the growth of assets which will provide signals regarding the firm's ability to manage resources to generate profits. Good performance will result in increased investor demand to buy firm shares and ultimately increase firm value.

If profitability is higher, the firm will be more likely to disclose economic, social and environmental information in terms of social responsibility. Profitability as proxied by Return On Assets (ROA) is a moderating variable that strengthens the relationship between sustainability reports and firm value (Purwanti, 2018).

The results of Budiana & Budiasih's (2020) research regarding profitability moderation (ROA) show that profitability is able to strengthen the positive influence of sustainability reports on firm value. Based on this description, the next hypothesis that can be put forward is:

H2: Profitability moderates the relationship between Sustainability Report and Firm Value.

3. RESEARCH METHODS

This This type of research is explanatory research using quantitative research methods. Research data was collected through documentation taken from annual financial reports and sustainability reports published by the IDX for 2020-2022 via www.idx.co.id.

The dependent variable of the research is firm value measured using Tobin's Q (Weston and Copeland, 2001), Tobin's Q is calculated by comparing the ratio of the firm's stock market value to the book value of the firm's equity.

$$Q = \frac{(EMV + D)}{(EBV + D)}$$

Where:	Q	= Firm value
	EMV	= Market value of equity
	EBV	= Book value of total assets
	D	= Book value of total debt

The independent variable is the sustainability report (SR) measured based on the disclosure items in the GRI Standards.

SRDI = n/k, the number of items disclosed divided by the total items that should have been disclosed

The moderating variable is profitability measured using Return On Assets (ROA):

ROA = Net profit / Total Assets

This research uses moderated regression (Moderated Regression Analysis MRA) with the formula:

Firm Value = $\alpha + \beta 1SR + \beta 2Prof + \beta 3[SR - Prof] + \varepsilon$

Where:	α	= constant;
	$\beta 1, \beta 2, \beta 3$	= beta coefficient;
	SR	= Sustainability Report;
	Prof	= Profitability;
	ε	= residual error

3.1. Descriptive Statistical Data Analysis

Descriptive statistics provide an overview of data that can make information clearer and more understandable as seen from the average, minimum, maximum and standard deviation values (Ghozali, 2018:19). Descriptive statistical testing was carried out using the Statistical Package for the Social Science (SPSS) software.

3.2. Classic Assumption Test

The classical assumption test is a test used to determine the presence or absence of deviations in the regression model of the independent variable on the dependent variable used. The classic assumption test consists of: multicollinearity test, auto correlation test, and heteroscedasticity test using the SPSS program.

3.3. Normality Test

The normality test is used to determine whether research data is normal or not. Normal data is data whose distribution value is the same between the average value (mean) and the standard deviation value. The data normality test used the Kolmogorov-Smirnov Z test with a significance probability level of 5%. Data is considered normal if the test results show a significance level greater than 5% (Ghozali, 2018: 161).

The results of the normality test using Kolmogorov-Smirnov Z of 1.048 with a significance level of 0.222. These results indicate that the research data is normally distributed because the significance level is 0.222 > 0.05.

3.4. Multicollinearity

The multicollinearity test is a regression model test to determine the strength or weakness of the correlation between independent variables. A good research model is characterized by low multicollinearity between independent variables. Multicollinearity testing is based on the tolerance value and Variance Inflation Factor (VIF). If the tolerance value is >0.10 and VIF <10, it means there is no multicollinearity (Ghozali, 2018: 107). The results of the data multicollinearity test are shown in table 1 below.

Table 1: Multicolinearity Test

Variable	Collinearity Statistics		
	Tolerance	Multicollinearity	
Zscore(SR)	0,955	No collinearity	No Multikolinearity
Zscore(PROF)	0,955	1,047	
ABS SR_PROF	1,000	1,000	

Source: Data analysis for the study

3.5. Auto Correlation Test

The auto correlation test is a test to determine the existence of a correlation between confounding errors in period t and confounding errors in period t-1 in the regression model for the previous period. A good regression model is free from auto correlation and is based on consideration of the Durbin-Watson Test results. If the Asimp.sig (2-tailed) value is > 0.05; there is no auto correlation and vice versa (Ghozali, 2018: 111).

Table 2: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.546[a]	.298	.264	6.11805	1.541

Source: data analysis for the study

3.6. Heteroscedasticity

A heteroscedasticity situation will cause the estimation of regression coefficients to be inefficient and the estimated results can be less or more than they should be. Thus, so that the regression coefficients are not misleading, the heteroscedasticity situation must be removed from the regression model. To test heteroscedasticity data, in this study the Glejser test was used. The regression model will be free from heteroscedasticity if the Glesjer test value is > 0.05. The results show that there is no heteroscedasticity.

Table 3: Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.184	2.902		1.786	.079
	Zscore(SR)	41.622	27.131	.187	1.534	.130
	Zscore(PROF)	1.925	1.318	.178	1.461	.149
	ABSSR_PROF	4.744	2.711	.208	1.750	.085

Source: Analysis data collected for the study

3.7. Regression Analysis

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. It can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them. Based on the regression analysis, F-test and t-test can be assessed. The F statistical test was carried out to test the model built through variable relationships and partial hypothesis testing using the t test.

3.8. Coefficient of Determination

Analysis of the coefficient of determination (R^2) is a measure to determine the suitability and accuracy of the relationship between dependent and independent variables in a regression equation, which means that the greater the value of the coefficient of determination, the better the ability of Variable X to explain variable Y (Ghozali, 2016). The coefficient of determination value is between zero and 1. The R^2 value which is getting closer to one indicates that the independent variable is able to provide information to predict variations in the dependent variable. If the R^2 value is getting closer to 0, it indicates that the independent variable is unable to explain the dependent variable.

4. RESULT AND DISCUSSION

4.1. Population and Sample

The population of this research are companies listed on the Indonesia Stock Exchange (BEI) which have published annual financial reports and sustainability reports consecutively during the 2020-2022 period. The research sample that met the criteria was 26 companies.

4.2. Descriptive Statistics

Descriptive statistics describe data from minimum, maximum, average (mean) and standard deviation values, so as to produce clear information, descriptive statistics are used (Ghozali, 2013). The results show that the mean Corporate Social Responsibility is 0.4033 and the standard deviation is 0.1272. Mean Corporate Governance is 3.4794 and standard deviation 0.7093. A mean that is greater than the standard deviation indicates that the mean can be used as a representation of the entire data. Firm value has a mean of 3.5724 and a standard deviation of 0.33454394. A standard deviation value that is greater than the mean indicates data that varies and deviates from the sample mean value.

Table 4 : Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	66	.16	.65	.4033	.1272
PROF	66	-2.35	13.50	3.4794	0.7093
TQ	66	.33	47.00	3.5724	0.3345
SR_PROF	66	-1.13	6.89	1.5124	1.69837
Valid N (listwise)	66				

Source: Analysis data for the study

4.3. Regression Analysis

The analysis results from the moderation regression analysis are:

TQ = 3,896+28,064SR+8,461PROF+13,842ABSSR_PROF

The regression coefficient value of Sustainability Report (SR) disclosure on firm value is 28.064, meaning that disclosure in SR has a positive influence on firm value. The more disclosures in the sustainability report, the more likely the firm value will increase.

The regression coefficient value on profitability on firm value is 8.461, meaning profitability has a positive influence on firm value. The higher the profitability, the more the firm value will increase.

The regression coefficient value of profitability as a moderator is 13.842, showing a positive value, meaning that profitability moderation strengthens the relationship between sustainability report disclosure and firm value. The higher the profitability moderation value, the greater the relationship between sustainability report disclosure and firm value.

4.4. Coefficient of Determination (R^2)

The coefficient of determination (Adjusted R Square) is 0.264 or 26.4%, indicating that the independent variable (SR_PROF) contributes 26.4% in explaining firm value and the remaining 100% - 26.4% % = 73.6% is explained by other variables outside the model studied.

4.5. Simultaneous Test (F Test)

The F test result of 8.784 with a significance of 0.000 indicates that the model studied has described a suitable relationship between the variables sustainability report, profitability and firm value.

4.6. Hypothesis testing

The t test results are explained as follows:

1. The effect of sustainability reports on firm value as indicated by the t value is 0.624 with a significance probability of 0.535. The significance result of 0.535 > 0.05 indicates that SR has no significant effect on firm value. Thus, H1, which states that sustainability reports have an effect on firm value, is rejected.
2. The moderating effect of profitability on the relationship between sustainability reports and firm value has a t value of 3.079 and a significance probability of 0.003. The significance result of 0.003 <0.05 indicates that profitability as a moderating variable has a significant effect on the relationship between sustainability reports and firm value.

Thus, H2 which states that profitability moderates the influence of sustainability reports on firm value, is accepted.

4.7. Discussion

4.7.1. The Effect of Sustainability Reports on Firm Value

The effect of sustainability reports on firm value as indicated by the t value is 0.624 with a significance probability of 0.535. The significance result of 0.535 > 0.05 indicates that the sustainability report does not have a significant effect on firm value. Thus, H1, which states that sustainability reports have an effect on firm value, is rejected. The insignificant results could be caused by variations in the sustainability report disclosure methods used by companies so that disclosure items also vary between companies.

According to stakeholder theory (Freeman, 1984), a firm is not an entity that only operates for its own interests, but must provide benefits to stakeholders, such as shareholders, creditors, consumers, suppliers, government, society, analysts and other parties (Ghozali & Chariri, 2007). Gray et al. (1994), stated that companies will seek support in order to sustain their survival so that communication is carried out with stakeholders through social and environmental disclosures (Chariri and Ghozali 2014).

The results of this research are in line with the research of Yulianingsih et al. (2018); Habibi (2017) and Kusuma & Priantinah (2018), who found that sustainability reports have a positive influence on firm value. These findings indicate that companies that disclose sustainability reports can provide a positive signal to investors so that it will help the firm maximize firm value.

4.7.2. The Moderating Effect of Profitability on the Relationship between Sustainability Reports and Firm Value

The results of the profitability test in influencing the relationship between sustainability reports and firm value have a t value of 3.079 with a significance probability of 0.003. The significance result of $0.003 < 0.05$ indicates that profitability as a moderating variable has a significant effect on the relationship between sustainability reports and firm value. Thus, H2 which states that profitability moderates the influence of sustainability reports on firm value, is accepted.

The results of this research support the research of Budiana and Budiasih (2020) and Purwanti (2018) who found that profitability can strengthen the positive influence of sustainability reports on firm value. This research does not support Kusuma & Priantinah's (2018) study that profitability is unable to strengthen the positive influence of sustainability reports on firm value. research results are presented in full, according to the scope of the study.

5. CONCLUSION

5.1. Concusion

The Based on the research results obtained, several conclusions from the results of this research are as follows:

1. Sustainability reports have an effect but are not significant on firm value so that the first hypothesis (H1) in this research is rejected. The direct influence of sustainability reports on firm value is not significant, which can be caused by the firm's choice in reporting sustainability based on GRI standards, where companies can choose between the core option (reporting a minimum of 1 item) or the comprehensive option (reporting all items according to the contents of the standard). Not choosing the same business group as the research sample may also be the cause of the insignificant direct influence of the Sustainability Report on Firm Value. Differences in the choice of GRI standards in firm reporting (GRI 2016 or GRI 2018) can also be the cause of the insignificant direct influence of sustainability reports on firm value.

2. Profitability succeeded in moderating the influence of sustainability reports on firm value. Profitability as a moderating influence of sustainability reports on firm value shows significant results.

5.2. Implications

The results of this research support Freeman's (1984) stakeholder theory, that a firm is not an entity that only operates for its own interests, but must provide benefits to its stakeholders, such as shareholders, creditors, consumers, suppliers, government, society, analysts and other parties (Ghozali & Chariri, 2007). Gray et al. (1994), stated that companies will seek support in order to sustain their survival so that communication is carried out with stakeholders through social and environmental disclosures (in Chariri and Ghozali 2014).

This research also has implications for signal theory, where profitability provides a signal to investors that management is able to generate profits that can meet investor expectations, thereby increasing firm value. The signal theory developed by Spence (1973) reveals that information owners provide signals in the form of transparent financial reports that are required by external parties. When the firm's performance is good or can provide the returns expected by shareholders, it will be received as a positive signal by shareholders so that it will increase demand for shares which has implications for increasing firm value. On the other hand, if the firm's performance is doubtful or experiences difficulties, it will be received as a negative signal by shareholders and will have implications for decreasing firm value.

It is hoped that the practical implications of this research for companies can be taken into consideration in making decisions and policies for managing activities and creating sustainability reports. Through a balance of economic, social and environmental activities reported in the firm's sustainability report, stakeholders increasingly believe in management's ability to manage the firm sustainably.

5.3. Limitations and Recommendation

The research sample that is the object of research is not limited to companies that choose the same disclosure method in the sustainability report (core or comprehensive), consists of various types of different industries, the sample size for this study is limited so it does not represent the sustainability disclosure of companies listed on the Indonesia Stock Exchange (BEI). Some recommendations and suggestions for further research are: the research sample that is the object of research is limited to companies that choose the same disclosure method in the sustainability report (core or comprehensive), the research sample includes sensitive companies, for example mining companies, and increase the sample size by increasing the research observation period, for example for 5 years.

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