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Market Response to Sustainability and Risk Management Disclosure in Indonesian Banking Companies: The Role of Liquidity Ratio

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A B S T R A C T

This study aims to examine the effect of sustainability report (SR) disclosure and risk management (RM) disclosure on company value (Tobin's Q), with the liquidity ratio (LCR ratio) serving as a moderating variable. In this study, company value represents investors' perception of a company's success, as reflected in its stock price. The research period spans 2018 to 2021, with a total of 164 samples from 41 banking companies. The findings reveal that SR and RM disclosures do not significantly influence Tobin's Q, and the liquidity ratio does not moderate the relationship between sustainability report disclosure, risk management, and company value. These results indicate that SR and RM disclosures have little impact on investors' decision-making.

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INTRODUCTION

The stability of activities on the stock exchange serves as a key indicator of a country's economic growth scale (IDX, 2021). The capital market is a facility utilized by the public to invest in various financial instruments and provides companies with a platform to raise additional funds, such as through the issuance and offering of shares. Before making investment decisions, investors need to gather comprehensive information about a company to inform their decision-making process (Putri & Wiksuana, 2021). This highlights the importance of companies providing adequate information about their financial and operational conditions. A capital market is deemed "efficient" if market prices fully reflect all available data (Fama, 1970).

The banking sector, as a critical industry in economic expansion, acts as a financial intermediary, bridging entities with surplus funds and those requiring loans. In addition to its traditional role, banking has diversified into investment facilitation, supporting efficient economic growth and aiming to reduce income inequality (Olalere et al., 2021). In Indonesia, banking activities are governed by Law No. 10 of 1998, Article 10, which defines banks as institutions collecting public funds in the form of savings and redistributing these funds as loans or other financial products to improve living standards. To fulfill this role effectively, banks must maintain public trust, partly by enhancing their company value.

Despite this, inconsistencies between profit increases and stock price performance remain evident. For instance, in April 2022, a significant decline in the stock index of major financial sector companies in the United States was reported, marking the largest drop since March 2020, despite increased earnings in Q1 2022 (Turner, 2022). Similarly, Indonesia's capital market shows discrepancies between profit growth and stock prices. For example, data from December 2021 for prominent banks like BCA, BRI, and Mandiri reveal such inconsistencies (Kusnandar, 2022).

Investor decisions often factor in elements beyond profitability, such as environmentally responsible business practices. Several emerging economies, including Indonesia, have introduced guidelines on environmental activities and disclosures. Indonesia's Financial Services Authority (OJK) has implemented a Sustainable Finance Roadmap, beginning with Regulation No. 51/POJK.03/2017, which mandates sustainability reporting for financial institutions, issuers, and public companies. The second phase of this roadmap (2021–2025) focuses on green taxonomy, risk management principles, and innovative sustainable financial products and services (OJK, 2020).

Previous research on sustainability report disclosure (SRD) presents mixed results regarding its impact on company value. Some studies (e.g., Yilmaz, 2021; Firmansyah et al., 2021; Swarnapali & Le, 2018; Loh et al., 2017) highlight a positive effect, while others (e.g., Sampong et al., 2018; Amalia et al., 2021) find no significant influence, and Bing & Li (2019) even report a negative impact. Similarly, the effect of risk management disclosure (RMD) on company value remains inconclusive. Studies by Nahar & Jahan (2021) suggest a positive influence, whereas others (e.g., Ticoalu et al., 2021; Siregar & Safitri, 2019; Emar & Ayem, 2020) find no significant relationship.

Given these inconsistencies, this study reexamines the effects of SRD and RMD on company value, incorporating the liquidity coverage ratio (LCR) as a moderating variable. By using the Global Reporting Initiative (GRI) 2018 standards for SRD and Basel III for RMD, this research aims to provide clearer insights into the relationships between these variables within the context of Indonesian banking companies listed on the IDX from 2018 to 2021.

LITERATURE REVIEW

The theoretical framework in this study explores the relationship between market efficiency, signalling, corporate value, sustainability reporting, risk management, and liquidity ratios. These concepts are essential in understanding how various corporate actions and disclosures impact a company's market performance and investor perception. Each theory presented in this section helps establish a foundation for understanding how these variables interact with and influence a company's value in the marketplace.

Market Efficiency Theory

Market Efficiency Theory, as defined by Fama (1970), suggests that the current price of a stock fully reflects all available information. This includes both publicly available information, such as financial statements and economic indicators, and insider information that might not yet be public. The theory is based on the Efficient Market Hypothesis (EMH), which asserts that stock prices move randomly as they adjust to new information.

There are three key assumptions of the EMH (Shleifer, 2000):

1. Rational Behavior: Investors behave rationally, meaning they evaluate stocks based on their intrinsic value and make decisions based on accurate assessments of the available information.
2. Irrational Behavior: While most investors act rationally, there are always some investors whose behavior may not follow logical patterns. However, their actions tend to cancel each other out, not influencing stock prices significantly.
3. Arbitrage: Rational investors can counteract the effects of irrational behavior in the market, ensuring that stock prices align with the true fundamental value of the company.

In essence, when new information becomes available, investors will quickly respond by adjusting their bids—buying stocks if the news is positive (good news) or selling if it is negative (bad news). As a result, stock prices will always reflect all available information, causing price movements that are largely unpredictable and random.

Signaling Theory

Signaling Theory, as proposed by Ross (1977), explains how companies send signals to investors about their future prospects through specific actions or communications. According to Suwardjono (2011), signaling involves voluntary disclosures made by management, especially when the disclosed information is considered positive (good news) by investors.

Brigham and Houston (2014) further define signaling as a management behavior pattern that conveys the company's future direction to investors. Companies release announcements or reports that serve as signals, allowing investors to form expectations about the company's potential. Positive signals are expected to generate favorable responses from the market.

Signaling Theory also addresses the issue of information asymmetry, where one party (the company) has more information than the other (investors). By sharing certain details, companies can reduce this asymmetry and guide investor decisions. This is particularly true for disclosures such as financial reports, sustainability reports, and risk management actions, which help convey the company's overall performance and stability (Widianingsih, 2018).

Company Value

Company value refers to the overall worth of a company, reflecting its ability to generate returns and its financial health. It is typically measured through market-based indicators, primarily stock prices, as well as financial metrics like Tobin's Q ratio. According to Dang et al. (2020), company value can be viewed as a blend of the current benefits a company holds and its potential future returns.

Tobin's Q, introduced by James Tobin (1968), is the ratio of a company's market value (including stock and debt) to the replacement cost of its assets. When this ratio is greater than 1, it suggests that the market perceives the company as having more potential value than its asset replacement costs, signaling a healthy, growing company. Conversely, a Q ratio below 1 suggests that the company's assets are undervalued, and the market might not recognize its full potential.

Investors tend to value companies with high Q ratios because they believe the company holds significant potential for growth, reflected in the higher market valuation compared to the cost of its assets. Conversely, a lower Q ratio may signal that a company's market value is less than its actual asset worth, potentially limiting investor confidence (Chung & Pruitt, 1994).

Sustainability Reporting

Sustainability reporting refers to the disclosure of a company's economic, social, and environmental impacts, reflecting its commitment to sustainable practices. The World Commission on Environment and Development (1987) defined sustainability as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs."

Elkington (1997) described sustainability as ensuring that current actions do not limit the future options for economic, social, and environmental development. The Indonesian Financial Services Authority (OJK) defines sustainability reporting as a report published by companies that details their performance in areas like economics, finance, social responsibility, and environmental impacts, aimed at demonstrating the company's commitment to sustainable business practices.

Sustainability reports are vital tools for companies to communicate their environmental, social, and governance (ESG) efforts, which can influence investor perception and company value. Positive sustainability reports signal to investors that the company is future-oriented and responsible, enhancing its reputation and attractiveness in the market.

Risk Management

Risk management is the process of identifying, assessing, and mitigating risks to protect a company's assets and ensure its long-term stability. Hanafi (2009) defines risk as potential negative outcomes from ongoing or future processes, while the Certification Body for Risk Management (2008) refers to it as the possibility of unfavorable results.

In terms of corporate management, risk management involves strategies to minimize the impact of risks-whether financial, operational, or market-based-on the company's performance. According to Hanafi (2009), effective risk management enhances company value by safeguarding assets and ensuring continuity in business operations.

Risk management, when disclosed transparently through financial and risk reports, can also reduce information asymmetry and signal to investors that the company is well-prepared to face uncertainties. This can positively affect investor confidence and, consequently, the company's value in the market.

Liquidity Ratio

Liquidity risk refers to the company's ability to meet its short-term financial obligations. As defined by the Certification Body for Risk Management (2008), liquidity risk is the risk of failing to meet liabilities when due. For companies, this includes managing liquid assets to ensure there is enough cash to cover debts and operational expenses.

A healthy liquidity ratio indicates strong financial health and the ability to cover immediate obligations, which reassures investors. In contrast, a poor liquidity ratio suggests potential financial instability, which may negatively affect investor perception and company value.

In this study, liquidity ratios serve as a moderating variable, influencing how other disclosures—like sustainability and risk management reports—affect the company's value. When a company demonstrates strong liquidity management, it signals effective financial stewardship, enhancing its attractiveness to investors.

Interconnection Between Variables

Sustainability reporting, risk management, and liquidity ratios are interlinked with a company's value, as each element contributes to shaping investor perception. High-quality sustainability reports signal a company's long-term commitment to social and environmental responsibilities, improving its reputation and potentially raising its market value.

Risk management disclosures complement this by demonstrating how well the company is prepared to mitigate potential threats. When companies disclose comprehensive risk strategies, investors gain confidence in the firm's stability and future prospects, which can positively impact the company's valuation.

Finally, liquidity management plays a critical role in moderating the effects of sustainability and risk disclosures. A company's ability to meet financial obligations strengthens investor trust, ensuring that sustainability and risk management initiatives translate into long-term value. Consequently, the interactions between these variables influence the company's overall market performance and investor attractiveness.

In summary, the theories of market efficiency, signaling, and company value, along with the practices of sustainability reporting, risk management, and liquidity management, provide a comprehensive framework to analyze how corporate actions impact company value. Each of these elements contributes to a holistic understanding of how businesses communicate with the market and how investors assess their potential.

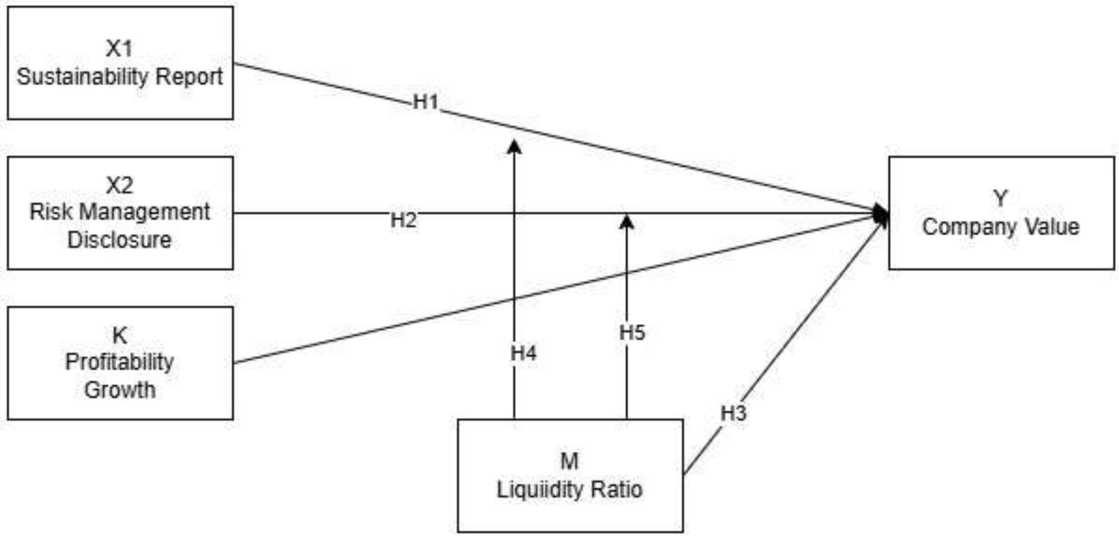

Figure 1. Conceptual Framework

METHODOLOGY

Research Design

Research design refers to a comprehensive plan detailing the methods for data selection, collection, and analysis (Sekaran & Bougie, 2016). This study employs a conclusive research design using secondary data available prior to the research. The conclusive design aims to test specific hypotheses and measure relationships. The study adopts a quantitative method, utilizing secondary data from annual reports and sustainability reports for the years 2018–2021. These were retrieved from the Indonesia Stock Exchange (IDX) website (www.idx.co.id) and the official company websites.

Population and Sampling Technique

According to Sekaran & Bougie (2016), the population encompasses the entire group or phenomenon being studied. The population for this research consists of banking companies listed on the IDX. The banking sub-sector was chosen due to its role as a monetary intermediary, crucial to economic growth and stability.

The study uses non-probability sampling, where not all individuals in the population have an equal chance of selection. Specifically, purposive sampling was applied, where samples are chosen based on specific criteria (Sugiyono, 2017). This study's data includes annual and sustainability reports from 2018 to 2021, with 2018 being the starting point as it aligns with the issuance of POJK No. 51/POJK.03/2017, providing sustainable finance guidelines and implementing the GRI Standards in Indonesia. Sample Criteria:

- Banking sub-sector companies listed on IDX as of May 2022
- Banks listed on IDX post-2017

Operationalization of Variables

Variables are elements identified for study, from which data is collected, analyzed, and concluded (Sugiyono, 2017). The study includes three types of variables: dependent, independent, and moderating.

1. Dependent Variable

- Company Value: Measured by Tobin's Q Ratio, which reflects the market value as perceived by investors. Calculated using the following formula:

$$Tobin's\ Q = \frac{Company\ Market\ Capitalization + Liabilities}{Assets}$$

Where:

- Company Market Capitalization: Market value of equity (stock price 4 months post fiscal year-end).
- Liabilities: Total book value of liabilities.
- Assets: Total book value of assets.

2. Independent Variables

- Sustainability Report Disclosure: Refers to transparency about a company's economic, environmental, and social impacts. The disclosure is measured using the GRI index, which includes governance, economic (GRI 200), environmental (GRI 300), and social (GRI 400) categories, with a total of 111 indicators.

$$SR_{it} = \frac{\Sigma X_{it}}{n}$$

- Risk Management Disclosure: Derived from IFRS 7 and BASEL II, focusing on major risks such as credit, market, liquidity, operational, strategic, legal, compliance, and reputation risks.

$$RDI_{it} = \frac{\Sigma R_{it}}{n}$$

3. Moderating Variable
- Liquidity Ratio: Measured by the Liquidity Coverage Ratio (LCR) as per POJK No. 42/POJK.03/2015, which assesses the adequacy of High-Quality Liquid Assets (HQLA) to cover potential net cash outflows under stress for 30 days.

$$LCR = \frac{HQLA}{Net\ Cash\ Outflow}$$

Data Analysis Techniques

Secondary data from annual and sustainability reports (2018–2021) are analyzed using EViews version 12 with multiple linear regression. The analysis includes descriptive statistics, data quality tests, and classical assumption tests.

1. Descriptive Statistics
   - Summarizes data with metrics such as mean, standard deviation, minimum, and maximum values
2. Multiple Linear Regression Analysis
   - Model 1: Examines the influence of independent variables on the dependent variable.

$$Tobin's\ Q_i = a + \beta 1SR_i + \beta 2MR_i + \beta 5ROA_i + \beta 6G_i$$

   - Model 2: Tests the interaction of independent variables with the moderating variable on company value.

$$Tobin's\ Q_i = a + \beta 1SR_i + \beta 2MR_i + \beta 3(SR_i \times L_i) + \beta 4(MR_i \times L_i) + \beta 5ROA_i + \beta 6SG_i + \beta 7\varepsilon_i$$

3. Classical Assumption Tests
   - Normality: Ensures residuals are normally distributed using the Kolmogorov-Smirnov test (p>0.05p > 0.05p>0.05).
   - Autocorrelation: Checked using the Durbin-Watson test to identify errors correlation.
   - Multicollinearity: Evaluated via Variance Inflation Factor (VIF < 10).
   - Heteroscedasticity: Assessed through the Spearman Rank test (p>0.05p > 0.05p>0.05).

4. Panel Data Models
   - Common Effect Model (OLS): Assumes no time/individual differences.
   - Fixed Effect Model: Captures individual differences using unique intercepts.
   - Random Effect Model (GLS): Accounts for random variance across entities.

5. Hypothesis Testing
- T-Test: Examines the significance of each independent variable individually (p<0.05p < 0.05p<0.05).

- Adjusted R^2: Measures how well the model explains variability in the dependent variable.

This structured approach ensures robust insights into the relationships between sustainability reporting, risk management, liquidity, and company value.

RESULTS AND DISCUSSION

Data Analysis

The data analysis in this study utilizes Eviews version 12, a statistical processing software. The research applies multiple linear regression analysis techniques, including descriptive and inferential statistical tests.

Descriptive Statistics

Descriptive statistics provide a summary of the collected data, including the mean, standard deviation, minimum, and maximum values. These metrics illustrate key characteristics of the dataset.

Inferential Statistics

Inferential statistics analyse sample data to make generalizations about the population. This method employs objective techniques for data collection, processing, and analysis to draw conclusions about specific populations (Sutopo & Slamet, 2017). The inferential methods used include regression modelling, classical assumption tests, and hypothesis testing.

Regression Model Selection

Regression model selection aims to determine the most suitable model for the study. This involves Chow tests, Hausman tests, and Lagrange Multiplier tests to evaluate the best approach among common effect, fixed effect, and random effect models.

Adjusted R-Squared (R^2)

Adjusted R^2 measures the model's explanatory power for variations in the dependent variable. Values range from 0 to 1, where a value closer to 1 indicates that the independent variables account for most of the variation in the dependent variable. Conversely, values near 0 indicate limited explanatory ability.

t-Test

The t-test evaluates the individual influence of an independent variable on the dependent variable. A significance level below 0.05 implies a significant partial effect of the independent variable.

Model Feasibility (F-Test)

The F-test assesses whether all independent variables simultaneously affect the dependent variable. A significance value below 0.05 suggests that the independent variables collectively have a significant impact.

Statistical Testing and Conclusion

Table 1. Descriptive Statistic Testing

	TOBINS_Q	SR	MR	L	ROA	SG
Mean	1.559907	0.173928	0.638788	1.391073	0.001076	0.252660
Median	1.004850	0.081100	0.636400	1.464450	0.004800	0.036550

Maximum	50.47840	0.621600	0.878800	8.461400	0.041400	8.122900
Minimum	0.158900	0.081100	0.151500	0.000000	-0.180600	-0.581800
Std. Dev.	4.158858	0.145340	0.145240	1.491608	0.025610	0.896183
Skewness	10.45884	1.731759	-0.905658	1.729938	-3.447947	5.540029
Kurtosis	119.6906	4.947747	4.315808	8.329245	20.19723	42.39045
Sum	255.8247	28.52420	104.7612	228.1359	0.176500	41.43630
Sum Sq. Dev.	2819.264	3.443187	3.438439	362.6578	0.106906	130.9125
Observations	164	164	164	164	164	164

Descriptive statistics summarize variables such as company value, sustainability report disclosure, risk management disclosure, and liquidity ratio. Key highlights include:

- Company value: Represented by Tobin's Q, with a mean of 1.5599, a maximum value of 50.4784, and a minimum of 0.1589.
- Sustainability Report Disclosure: Averages 0.1739 (17.39%), indicating the level of compliance with GRI standards.
- Risk Management Disclosure: Shows an average of 0.6388, with a range from 0.1515 to 0.8788.
- Liquidity Ratio: Measured by the Liquidity Coverage Ratio (LCR), ranging from 0 to 8.4614.

Regression Model Results

The Chow test, Hausman test, and Lagrange Multiplier test collectively identified the random effect model as the best fit for this study. The random effect model meets classical assumptions, eliminating the need for further assumption tests.

Hypothesis Testing

Table 2. Hypothesis Testing

Dependent Variable: TOBINS_Q				
Method: Panel EGLS (Cross-section random effects)				
Date: 06/16/23 Time: 23:15				
Sample: 2018 2021				
Periods included: 4				
Cross-sections included: 41				
Total panel (balanced) observations: 164				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.733821	1.643600	0.446472	0.6559
SR	-7.459987	6.152594	-1.212494	0.2272
MR	1.615580	3.495926	0.462132	0.6446
L	-0.344509	0.423337	-0.813793	0.4170
SR_L	3.647340	3.027005	1.204933	0.2301
MR_L	-0.197982	1.312293	-0.150867	0.8803
ROA	-37.54067	11.96134	-3.138500	0.0020
SG	2.448020	0.317541	7.709294	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			3.585658	1.0000
	Weighted Statistics			
Root MSE	3.358481	R-squared		0.343864
Mean dependent var	1.559907	Adjusted R-squared		0.314422

S.D. dependent var	4.158858	S.E. of regression	3.443520
Sum squared resid	1849.821	F-statistic	11.67936
Durbin-Watson stat	2.754274	Prob(F-statistic)	0.000000
	Unweighted Statistics		
R-squared	0.343864	Mean dependent var	1.559907
Sum squared resid	1849.821	Durbin-Watson stat	2.754274

The regression equation is as follows:
Tobin's Q = 0,733821 – 7,459987 SR + 1,615580 MR - 0,344509 L + 3,647340 SR*L – 0.197982 MR*L – 37,54067 ROA + 2.448020 SG + ε.
Key findings include:

- Sustainability report disclosures, risk management disclosures, and liquidity ratio do not significantly influence company value as their probability values exceed 0.05.
- Liquidity does not moderate the relationship between sustainability report or risk management disclosures and company value.

Model Fit and Predictive Power

- Adjusted R^2 is 0.3144, indicating that 31.44% of company value variation is explained by the independent and control variables.
- The F-statistic has a significance level of 0.000000, confirming the model's fit.

Based on the hypothesis testing results, the following conclusions can be drawn: Sustainability report disclosures do not influence company value. This suggests that such disclosures do not impact investor decision-making, potentially because they are perceived as mere administrative requirements rather than a valuable source of information for assessing the company.

Risk management disclosures do not affect company value. This indicates that the information provided in risk management reports does not sufficiently assure investors about the company's condition. Similar to sustainability reports, risk management disclosures might be seen as mandatory information inspected by regulators and not considered critical for investor decision-making. The liquidity ratio does not moderate the relationship between sustainability report disclosures and company value. The liquidity ratio does not moderate the relationship between risk management disclosures and company value.

CONCLUSIONS AND RECOMMENDATIONS

This study investigates the effect of sustainability report disclosures and risk management disclosures on company value, using the liquidity ratio as a moderating variable in Indonesian banking sector companies (2018–2021). The following conclusions are drawn:

1. Sustainability report disclosures do not significantly influence company value. These disclosures appear to be perceived as administrative compliance rather than valuable information for investment decisions.

2. Risk management disclosures similarly lack significant impact on company value. Investors may see them as mandatory and less reflective of a company's true condition.
3. The liquidity ratio does not moderate the relationship between sustainability report disclosures and company value.
4. The liquidity ratio also fails to moderate the relationship between risk management disclosures and company value.
5. For Companies: Focus on improving the depth and quality of sustainability and risk management disclosures to make them more relevant and impactful for investors. Shift towards investor-centric reporting that highlights actionable insights instead of merely meeting regulatory requirements.
6. For Investors: Evaluate financial and operational disclosures beyond sustainability and risk management to form a holistic view of company value. Assess whether such disclosures meaningfully reflect a company's true condition and strategic direction.
7. For Regulators: Encourage broader adoption of comprehensive reporting frameworks like the full GRI Standards to enhance transparency and disclosure relevance. Provide clearer guidelines for companies to align disclosures with investor expectations.

FURTHER STUDY

This research identifies several limitations, which offer opportunities for future studies:

1. Extended Observation Period: Future research can use a longer observation period to capture broader trends and the impact of economic cycles.
2. Expanded Population: Include companies across various financial sub-sectors or industries to generalize findings.
3. Comprehensive Disclosure Indices: Adopt a more extensive range of sustainability indices covering governance, environmental, and social factors for a more in-depth analysis.

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Undang-Undang Republik Indonesia Nomor 10 Tahun 1998 Tentang Perbankan

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