https://doi.org/10.24265/raef.2022.v5n2.53

Using the sustainable finance index model to understand sustainability: a case study of Indonesia and China in banking companies, 2020.

Uso del modelo de índice de finanzas sostenibles para comprender la sostenibilidad: un estudio de caso de Indonesia y China en empresas bancarias, 2020.

Jane Lalita [1], Yanuar Nanok Soenarno [2]

ABSTRACT

This research aims to determine the impact of sustainability reports on Earnings Quality and Earnings Response Coefficient (ERC). The dependent variable was Earnings Quality and Earnings Response Coefficient (ERC) and the independent variable used in this research was sustainability report. The population in this research were banking companies listed on the Indonesian Stock Exchange dan Shanghai Stock Exchange for the period 2020. The sample of companies used in this research was 56 companies. The analysis technique used in this research was Partial Least Square (PLS). Data were analyzed by SmartPLS program version 3. The result showed that the sustainability report had no impact on Earnings Quality and Earnings Response Coefficient (ERC).

Keywords: Sustainability report, earnings quality, earnings response coefficient (ERC)

RESUMEN

Esta investigación tiene como objetivo determinar el impacto de los informes de sostenibilidad en la calidad de los ingresos y el coeficiente de respuesta de los ingresos (ERC). La variable dependiente fue la Calidad de las Ganancias y el Coeficiente de Respuesta de las Ganancias (ERC) y la variable independiente utilizada en esta investigación fue el informe de sustentabilidad. La población de esta investigación fueron empresas bancarias que cotizan en la Bolsa de Valores de Indonesia y la Bolsa de Valores de Shanghái para el período 2020. La muestra de empresas utilizadas en esta investigación fue de 56 empresas. La técnica de análisis utilizada en esta investigación fue Partial Least Square (PLS). Los datos fueron analizados por el programa SmartPLS versión 3. El resultado mostró que el informe de sustentabilidad no tuvo impacto en la calidad de las ganancias y el coeficiente de respuesta de las ganancias (ERC).

Palabras clave: Informe de sostenibilidad, calidad de ganancias, coeficiente de respuesta de ganancias (ERC)

Received: 17 June 2022
Accepted: 13 July 2022

Introduction

The company must get legitimacy from stakeholders, and potential investors that the business activities carried out by the company are running well not only to increase profits but also to care about the community and the surrounding environment. One way is by issuing a Sustainability Report (SR) by the company. The issuance of this report in various countries is mandatory and Indonesia itself has been issued Financial Services Authority Regulation No. 51 / POJK. 03/2017 (POJK 51) which contains the obligation to issue a Sustainability Report (SR) for companies engaged in the financial services sector.

Another thing that supports the issuance of a Sustainability Report (SR) to banking sector companies is that companies engaged in the banking sector will get deposits and provide loans to individuals and companies. With this role, companies engaged in the banking sector have an important role in the global economy and also provide a source of funds to those in need. Therefore, it is required that there are regulations and standards governing companies engaged in the banking sector after seeing a significant transformation after the economic crisis in 2008 and still developing at this time. The issuance of standards and regulations on the issuance of a Sustainability Report (SR) will have the power to influence the value of stakeholders and company performance.

According to Surifah (2010), The benchmark of the quality of financial information is the quality of profit. The high quality of profit can describe the character of financial information. Many companies do profit management to manipulate their financial statements so that they look good to stakeholders, as well as potential investors. This can be detrimental to potential investors. A study

[1] Researcher at the Atma Jaya Catholic University of Indonesia. E-mail: jane.201801020040@student.atmajaya.ac.id,
[2] Researcher at the Atma Jaya Catholic University of Indonesia. E-mail: yanuar.nanok@atmajaya.ac.id

How to cite: Lalita, J. & Nanok Soenarno, Y. (2022). Using the sustainable finance index model to understand sustainability: a case study of Indonesia and China in banking companies, 2020. REVISTA DE ANÁLISIS ECONÓMICO Y FINANCIERO, 5(2), 1-5. https://doi.org/10.24265/raef.2022.v5n2.53

conducted by Fauziah & Marissan (2014), said the quality of profit has a significant positive impact on the quality of profit. This is in line with research conducted by Isyanto & Ratnaningsih (2014), which said that companies that publish a Sustainability Report (SR) will realize good profit quality.

A company that discloses information about its company will quickly affect the market and impact its stock price (Gumanti & Utami, 2002). The company discloses information about social responsibility and good corporate governance will tend to get more attention from potential investors so that potential investors are interested in investing in the company. This is an example of the Theory of Efficient Market Hypothesis (EMH). To see the relationship between the information presented by the company and the share price of the company, the author will use the value of the Earnings Response Coefficient (ERC). The ERC is used to assess the abnormal rate of return of stock on the market's reaction to the disclosure of profits published by the company. Research conducted by Dazia et al., (2017) revealed the influence of SR related to ERC. But this research is contrary to Harmanta & Yadnyana's (2016) research which revealed SR did not affect ERC.

Literature Review and Hypothesis

Legitimacy Theory

The theory of legitimacy also reveals that the company must convince stakeholders, as well as potential investors that the company's business activities and performance can be well received. One way for companies to convince stakeholders and potential investors is to issue a Sustainability Report (SR) (Tarigan & Semuel, 2014). Company management must respond quickly to the shift in the environment between stakeholders from both external and internal parties. Right now, the issues that are on the rise are issues about sustainability. In addition to the need for standard financial reports, companies also need a Sustainability Report (SR) which includes a lot of good information for the wider community, so that it can respond to the community's need for information about how the company answers the call to carry out sustainable development (Hahn & Kuhnen, 2013).

Institutional Theory

The issuance of sustainability reports has been required in various countries for banking sector companies, and Indonesia itself has issued regulations on this matter, which are stated in the Financial Services Authority Regulation No. 51 /POJK. 03/2017. This relates also to an institutional theory which is defined as a process that forces the leveling of units in a population to compensate for other units facing the same environmental situation (Putra Umar Sakka, 2020). According to DiMaggio & Powell (1983), an institutional theory is divided into three points of view, namely coercive isomorphism derived from political impact and legitimacy problems, mimetic isomorphism derived from a standard response to uncertainty, as well as the last normative isomorphism concerned with professionalism.

Efficient Market Hypothesis

In this theory argues that a good market is one whose investors have extensive and intelligent knowledge, so the stock will get an accurate price and will reflect all available information. Any existing information can be used to predict the performance of the stock already reflected in the stock price at that time (Nwaolisa & Kasie, 2012). In this theory, it is also argued that the company's stock price in the current market already reflects the value of the company after taking into account existing information about the company's profit, the company business prospects, as well as other information relevant to the company. The EMH said that investors cannot make profits that are worth more than the expected value for a particular stock under market conditions and the risks associated with that stock if the investor is only aware of the knowledge of certain pieces of information. This theory is divided into three forms, namely: weak form, semi-strong form, and strong form.

Earnings Quality

According to Bellovary et al (2005), the quality of profit is an important perspective for assessing the financial health of the company. Earnings quality refers to the ability of the reported profit to show the company's actual profit, and can be used to predict future profits. Earnings quality will be better if the profit obtained equals or exceeds the targeted, and vice versa the quality of profit will be worse if the disclosure of the profit obtained does not match the actual profit, so that anomalies can occur and have an effect on the wrong decision taking by investors (Kepramareni et al., 2021). Based on research conducted by Fauziah & Marissan (2014), said Sustainability Report (SR) has a significant positive impact on Earnings Quality. The more disclosures in the SR, the higher the quality of profit generated by the company. Similar to the research conducted by Hong & Andersen (2011), the results of the study stated that the more disclosures in the SR, the higher the quality of accrued profit, to degrade the company's profit management activities. According to García-Sánchez & García-Meca (2017), in their research outlined SR has a positive impact on Earnings Quality in banks. Banks that disclose SR well can attract more creditors who are creditworthy so that banks can improve the quality of the bank's profits and assets.

H_1: Sustainability Report (SR) has a positive effect on Earnings Quality.

Earnings Response Coefficient (ERC)

ERC is a coefficient used to calculate the abnormal rate of return of a stock in response to unexpected earnings (EU) announced by the company issuing the shares. The emergence of the EU resulted in the market becoming efficient, as well as the presence of abnormal returns obtained from stocks means that the code that investors respond to the presence of the EU is good information for investors (Scott, 2015). The value on the ERC reflects the market's response to the company's published earnings information seen from fluctuations in stock prices on days approaching the issuance of financial statements. If the estimated ERC value is higher than the company's profit will be constant and the quality of the company's profit tends to be good. Based on research conducted by Dazia et al. (2017), which revealed that SR has an impact on ERC. In this study, it was also suggested that companies start issuing SR. So that it can drive up profits in the future. The research conducted by Sideri (2021), revealed that SR has an impact on financial performance and also ERC of banking sector companies. While other factors support it, the banks that disclose their SR get the benefits. The higher the ERC of the company, the more useful the disclosure in the financial statements or SR will be (Dewi, 2015).

H_2: Sustainability Report (SR) has a positive effect on the Earnings Response Coefficient (ERC).

Research Method

The type used in this study is explanatory research. To determine the effect of the Sustainability Report (SR) on Earnings Quality and Earnings Responses Coefficient (ERC). The population used in this study were banking companies listed on the Indonesia Stock Exchange and the Shanghai Stock Exchange. The necessary data is contained in the company's financial statements, as well as the company's Sustainability Report (SR). The population in this study was 61 companies. sample selection using purposive sampling technique, so that the selected samples in this study were 56 companies. the method used in this study was Partial Least Square (PLS), which is Structural Equation Modeling (SEM) Analysis that can simultaneously test measurement models (test validity and reliability) as well as structural testing for causality tests (hypothesis testing with model's predictions). The study has independent variables, namely the Sustainability Report (SR), and the dependent variables, namely profit quality, and Earnings Responses Coefficient (ERC). An independent variable in this study is the Sustainability Report (SR). The SR measurement research uses indicators and calculations of SR values from previous research conducted by Teresia Angelia Kusumahadi, Adji Pratikto, and Angsgarius Davin in their research entitled Determination of Sustainable Financial Index: Book 4 Period 2016-2019. Meanwhile, the measurement of Earnings Quality uses the calculation of earnings quality ratio, and ERC measurements using calculations from previous research by Dewi in her research entitled The Role of CSRD on Company's Financial Performance and Earnings Response Coefficient (ERC).

Result and Discussion

Through the results obtained in the bootstrapping and path coefficient tests, it can be seen that the effect of the Sustainability Report on the Earnings Quality in Indonesia is 0.874 (path coefficient / T-statistic) and the P-value of 0.191 both values are greater than the significance value set at 0.10 or 10% then H_1 rejected. As for the effect of the Sustainability Report on the Earnings Response Coefficient (ERC) in Indonesia, it has a path coefficient value or T-statistical value of 0.213 and a P-value of 0.416 because both values are more than 0.10 or 10%, then H_2 is rejected.

For China, the effect of the Sustainability Report on Earnings Quality, the path coefficient value or T-statistical value is 0.423 and the P-value is 0.336. If this figure is greater than the predetermined significance value of 0.10 or 10% then H_1 is rejected. For the effect of the Sustainability Report on the Earnings Response Coefficient (ERC) in China, the T-statistical results or path coefficient value of 1,004 and the P-value of 0.158 were obtained. Both values do not meet the criteria for H_2 to be accepted because both values are more than 0.10 or 10% so H_2 is rejected.

Table 1

Figure 1

Figure 2

The effect of Sustainability Report on Earnings Quality

Based on the test results conducted in table 1, illustrates the significance value obtained for the Sustainability Report variable in Indonesia of 0.191 and China of 0.336. This shows that the significant value that has been determined is smaller than the significance value calculated so that H_1 is rejected, and it can be concluded that the Sustainability Report does not influence the quality of profits in the two countries in this study, namely Indonesia and China.

The results of this test are in line with the research conducted by Lestari & Feliana (2021) and Choi et al. (2013) which shows the Sustainability Report does not influence the Earnings Quality. This illustrates that the presence or absence of a Sustainability Report published by the company does not have an impact on the quality of profits, therefore this shows that the Sustainability Report published by the company does not provide guarantees for the good or bad quality of profits. In addition, the disclosure of the value of the Sustainability Report using the indicators in this study has not been used because it is still new so it cannot be used as material to predict the quality of company profits for the internal interests of the company.

The effect of Sustainability Report on Earnings Response Coefficient (ERC)

Based on the test results in table 1, proves that the significance value obtained for the Sustainability Report variable is 0.416 for Indonesia and 0.158 for China, both values are greater than 0.10 or 10% so that H_2 is rejected. Therefore, it can be concluded that the Sustainability Report variable does not affect the Earnings Response Coefficient (ERC).

The test results are in line with the research Hardiana (2021) and Dewi (2015) argue that the Sustainability Report does not influence the Earnings Response Coefficient (ERC). This reveals that the Sustainability Report does not affect the abnormal return on the unexpected earnings of the company reported when issuing shares.

The absence of the Sustainability Report on the Earnings Response Coefficient (ERC) also shows that decision-making by investors refers to the amount of profit that will be obtained by investors in the future. So that investors do not pay much attention to the company's Sustainability Report. In addition to this, with the issuance of the Financial

Services Authority Regulation No. 51 / POJK. 03/2017 (POJK 51) which contains the obligation to issue a Sustainability Report (SR) for companies engaged in the financial services sector, can cause no effect of the Sustainability Report on the ERC because investors do not see the added value of the company by issuing a Sustainability Report because in 2020 the Sustainability Report for banking companies is already mandatory. Another thing that can cause the sustainability report to not affect the ERC is that the indicators in the calculation of the Sustainability Report are still very new so the impact cannot be predicted for stakeholders, in this case, the stakeholders are external parties.

Conclusion

Based on the research carried out, it can be concluded that the Sustainability Report does not affect earnings. This shows that in the presence or absence of a Sustainability Report the company does not provide guarantees for good or bad Earnings Quality. And another thing that can be the cause of the disclosure of the value of the Sustainability Report does not affect the Earnings Quality is that the indicators used in this study have not been used because they are still new so they cannot be used as material to predict the quality of company profits for the internal interests of the company.

The Sustainability Report does not affect the Earnings Response Coefficient (ERC). This concludes that with the presence or absence of the Sustainability Report the company does not change the abnormal return on the unexpected earnings of the company reported when issuing shares. Thus, decision-making by investors refers to the amount of profit that will be obtained by investors. Because of this, investors do not pay much attention to the company's Sustainability Report. In addition to this, with the issuance of the Financial Services Authority Regulation No. 51 / POJK. 03/2017 (POJK 51) which contains the obligation to issue a Sustainability Report (SR) for companies engaged in the financial services sector, it can cause no effect of the Sustainability Report on the ERC because investors do not see the added value of the company by issuing a Sustainability Report because in 2020 Sustainability Reports for banking companies are already mandatory. Another thing that can cause the sustainability report to the ERC is not to have an effect because the indicators in calculating the Sustainability Report using this indicator are still relatively new so the impact cannot be predicted for stakeholders, in this case, the stakeholders are external parties.

Suggestions

With the results of the research that has been carried out, some suggestions can be given as follows.

1. For further research, researchers are advised to use other indicators for measuring Sustainability Reporting such as GRI and SASB, because in this research the indicators used in measuring the value of Sustainability Reporting are still relatively new so many companies do not have data related to the indicators set.
2. For further research, the researchers aligned the selection of other measurement ratios if they want to carry out research in the banking sector such as leverage, good corporate governance, bank size, profitability, CAMEL, NPL, CAR, and BOPO.
3. For further research, the researcher suggested adding a period of research data, because this study only used data for one year.

References

Bellovary, J. L., Giacomino, D. E., & Akers, M. D. (2005). Earnings Quality: It's Time to Measure and Report. The CPA Journal, 75(11).

Choi, B. B., Lee, D., & Park, Y. (2013). Corporate social responsibility, corporate governance and earnings quality: Evidence from Korea. Corporate Governance: An International Review, 21(5). https://doi.org/10.1111/corg.12033

Dazia, E., Maulita, D., & Faramita, D. S. (2017). Analisis pengungkapan corporate social responsibility (csr) dalam laporan tahunan terhadap koefisien respon laba akuntansi. Jurnal Juma Unsera, 2008.

Dewi, D. M. (2015). The Role of CSRD on Company's Financial Performance and Earnings Response Coefficient (ERC). Procedia - Social and Behavioral Sciences, 211. https://doi.org/10.1016/j.sbspro.2015.11.072

DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. American Sociological Review, 48(2). https://doi.org/10.2307/2095101

Fauziah, F. E., & Marissan, I. (2014). Pengaruh Corporate Social Responsibility (CSR) Terhadap Kualitas Laba Dengan Corporate Governance Sebagai Variabel Moderating. Jurnal Akuntansi & Auditing, 11(1), 38-60.

García-Sánchez, I. M., & García-Meca, E. (2017). CSR Engagement and Earnings Quality in Banks. The Moderating Role of Institutional Factors. Corporate Social Responsibility and Environmental Management, 24(2). https://doi.org/10.1002/csr.1405

Gumanti, T. A., & Utami, E. S. (2002). Bentuk Pasar Efisien dan Pengujiannya. Jurnal Akuntansi dan Keuangan, 4(1), 2002. doi:https://doi.org/10.9744/jak.4.1.pp.%2054-68

Hahn, R., & Kuhnen, M. (2013). Determinants of sustainability reporting: A review of results, trends, theory, and opportunities in an expanding field of research. In Journal of Cleaner Production (Vol. 59). https://doi.org/10.1016/j.jclepro.2013.07.005

Hardiana, N. (2021). Does Divulgation of Corporate Social Responsibility Information Influence Earnings Response Coefficient? EQUITY, 24(2). https://doi.org/10.34209/equ.v24i2.3770

Harmanta, I. G., & Yadnyana, I. K. (2016). Pengaruh Pengungkapan Corporate Social Responsibility Pada Earnings Response Coefficient Perusahaan Publik Yang Terdaftar di BEI. Buletin Studi Ekonomi, 21(2), 115-232. doi:https://doi.org/10.24843/bse.2016.v21.i02.p04

Hong, Y., & Andersen, M. L. (2011). The Relationship Between Corporate Social Responsibility and Earnings Management: An Exploratory Study. Journal of Business Ethics, 104(4). https://doi.org/10.1007/s10551-011-0921-y

List of tables

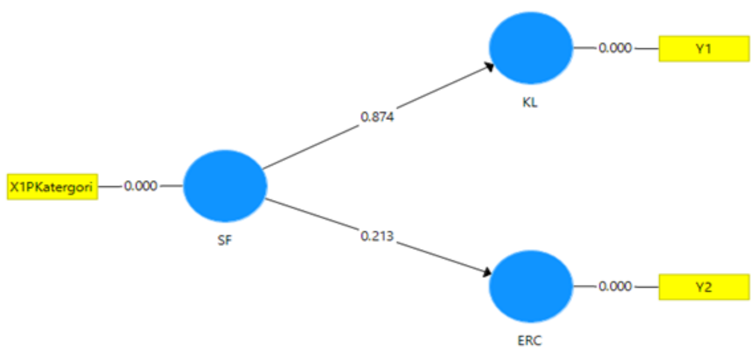
Table 1: Bootstrapping Result

Hypothesis	Variable	Original Sample	T-Statistic	P-Value	Conclusion
		Indonesia			
H_1	SR → KL	-0.193	0.874	0.191	Rejected
H_2	SR → ERC	0.023	0.213	0.416	Rejected
		China			
H_1	SR → KL	-0.105	0.423	0.336	Rejected
H_2	SR → ERC	-0.160	1.004	0.158	Rejected

Source: Data processing with the smartpls version 3 program

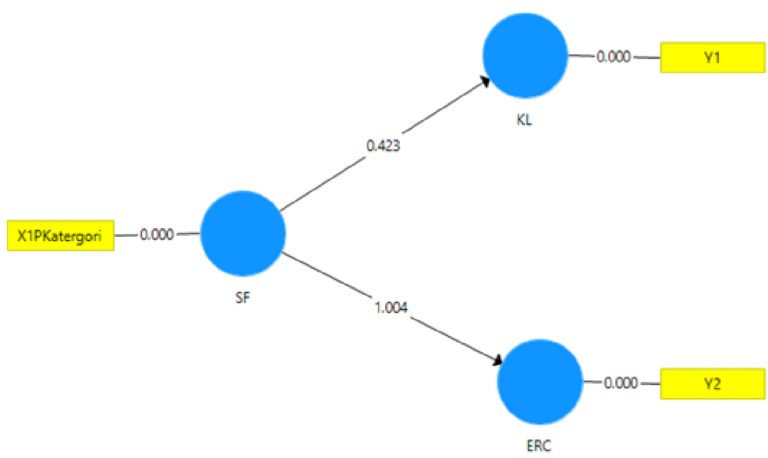
List of figures

Figure 1: Path coefficient result in Indonesia



Source: Prepared by the author

Figure 2: Path coefficient result in China



Source: Prepared by the author