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Readiness in Disclosure of Sustainable Finance through Media and Governance against Firm Value in Indonesia

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ABSTRACT--*Issues of sustainable finance is currently driving the implementation of Sustainable Development Goals (SDGs) in many countires, including Indonesia. This study examines the readiness for the implementation of sustainable finance by the financial industry in Indonesia through testing the readiness for the disclosure of sustainable finance in the media, as well as governance, and the SRI Kehati (Sustainable and Responsible Investment) index to firm value. Using regression analysis, result shows that one of the governance mechanism and the SRI Kehati index has a significant effect on firm value. This result means that the Financial Services Authority (OJK) as a regulator of the financial industry needs to encourage the application of sustainable finance disclosure in addition to strengthening the implementation of good corporate governance. Investors can consider banking stocks included in the SRI Kehati Index because they can be a driver of firm value.*

Keywords*-- Sustainable finance, corporate governance, Sustainable and Responsible Investment (SRI), firm value*

I. INTRODUCTION

Sustainable Development Goals (SDGs) is an agreement of world leaders to implement the global development agenda. Various countries in the world are competing to implement it because it aims for world peace and prosperity for the present and sustainability in the future. Indonesia is one of the countries that has also contributed to the implementation of the program. Through the Financial Services Authority/ Otoritas Jasa Keuangan (OJK) companies in Indonesia are encouraged to participate in the implementation of the program. Banking institutions are considered to be a potential driving agent for the implementation of programs, especially programs related to environmentally sustainable. Therefore, along with the development of sustainability reporting, sustainable finance was chosen as a concept that can boost the implementation of the SDGs program, especially to raise awareness of companies to participate in protecting and preserving the environment, and building social care.

Since 2014, OJK as a regulator for financial institutions in Indonesia has launched a Sustainable Finance Roadmap that plans a sustainable finance program in two stages of achievement, namely the medium term (2015-2019) and the long term (2015-2024). Ani and Fredy's research results (2017) states that the components of governance (the size of the board of directors) and the size of the company affect the disclosure of sustainable finance. However, in the two years after the roadmap was launched (2016), the average banking disclosure in sustainable finance under the IFC based category was still low (Ani and Fredy, 2017) so that companies in Indonesia, in this case the financial sector still needed direction more intensive in implementing sustainable finance.

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The implementation of sustainable finance has actually been pursued by various countries in the world. In China, there is a Green Credit Guidelines policy that covers the implementation of 2007, 2012 and 2014 (Oyegunle and Weber, 2015). Meanwhile, in Switszerland, Gerster (2011) provides an overview of the implementation of sustainable finance in the country. Likewise, Ozcelik and Ozturk (2014) conveyed the application of sustainable finance in Turkey through sustainability report reporting in the GRI category. Savu (2012) describes the application of sustainable finance by banks in Romania who have the initiative to provide protection to their customers through environmentally friendly services and the use of environmentally friendly products. The environmentally friendly services provided include: green cards, online banking, electronic bank statements, green mortgages, green home equity loans, green commercial buildings loans or green car loans.

This study tries to look back at the readiness of financial sector companies in Indonesia in implementing sustainable finance through testing the disclosure of sustainable finance in online media and the governance component of firm value. In addition, the company type and SRI Kehati index were also tested in order to see the effect of company specifications, profitability, and company size as control variables

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II. LITERATURE REVIEW

Sustainable Finance dan Sustainability Reporting

Sustainable finance is a global agenda that can support the implementation of SDGs. Through the Sustainable Finance Roadmap (2014), OJK has provided impetus to financial institutions, both the banking and non-banking sectors. The implementation of sustainable finance is divided into several stages of achievement: For banks with book 3, book 4, and foreign bank categories starting in 2019, for banks with book 1 and 2 categories starting in 2020, and for non-banking financial institutions starting in 2020. 2019 is the fifth year of the presence of the sustainable finance agenda in Indonesia, if calculated since the launch of the roadmap. It seems that it will take a long time for socialization, negotiation, and coaching to be carried out for the banking industry. Therefore, it is necessary to describe the level of readiness of financial institutions, especially banks that have implemented sustainable finance for the past year (2019).

After the Corporate Social Responsibility (CSR) agenda and its disclosure, then developed into sustainability reporting, companies are even more encouraged to express concern for their social and environment through this sustainable finance agenda. This sustainable finance agenda encourages companies to pay more attention to their social and environment through banking. For example, in the case of funding provided by banks to companies that need funds, banks can require company sustainability report documents and consider the company's reputation for social humanitarian participation or its work in environmental sustainability. Sustainable finance is a form of support from the financial services sector to create sustainable economic, social, and environmental growth (OJK Regulation No. 51 / POJK.03 / 2017).

In the Rainforest Action Network survey, Tuk Indonesia, Jikalahari, Walhi, and Profundo (2018), there are several banks that also provide funding to environmental destruction companies (www.ran.org). Therefore, it is

quite important to put pressure on banking institutions in implementing sustainable finance along with its disclosure.

Pengungkapan Sustainable Finance di Media Online

Online media in the current era can be an effective and efficient means for broadcasting company activities, including activities related to social and environmental care. Through this media companies can build communication with consumers, investors, and other stakeholders. Alali and Romero (2012) examine the use of the internet by companies to disclose information, both financial and non-financial.

The media is also considered to be able to improve company performance. Research Luo, et al. (2013) found that social media-based metrics (web blogs and consumer ratings) can increase firm equity value. The media has also been proven to have an influence on share price movements (Yu, et al., 2012). In addition, companies engage with the media to improve company image, win industrial competition, and keep up with technological developments (Khan and Azizi, 2012). However, the company's response and involvement with the media needs to pay attention to updating information and analysis at all times, increasing expertise in communication development and technology acceleration, as well as concern for information security, especially financial reporting on the internet (Khan and Azizi, 2012).

According to Alali and Romero (2012), companies with financial and insurance, service and mining industries disclose more financial and non-financial information on the website compared to other types of companies (facts on the Buenos Aires Exchange). Companies engaged in finance and insurance, as well as services use their websites for commercial purposes and as an access facility for their customers and to sell their services. While mining companies provide more disclosure related to social responsibility, as well as a desire to improve public image related to environmental damage.

Corporate Governance dan Firm Value

Corporate governance is a component that cannot be ignored in the implementation of company activities. Existing corporate governance must guarantee the implementation of transparency, accountability, responsibility, independence, and fairness. Disclosure of company information in the media is one form of good corporate governance (especially the fulfillment of transparency, accountability and responsibility criteria). Asongu and Odhiambo's research (2019) shows that media influences governance dynamics.

If the company is able to implement good corporate governance, the firm's value can increase. This is in accordance with the research of Almaskati et al. (2020) that improving corporate governance can increase corporate returns and value.

Prior Researches

Sustainable finance in the financial industry, particularly banks in Indonesia, is under pressure through disclosure in the form of a sustainability report under the Global Reporting Initiative (GRI) category. This was also done by several other countries, including Turkey (Ozcelik and Ozturk, 2014; Kuzey and Kuyar, 2017). Readiness for the implementation of sustainable finance is expressed through online media. The media is indeed a form of fulfilling the criteria for implementing good corporate governance in which companies are demanded to be transparent, accountable, responsible, independent, and fairness. Several studies have revealed that corporate penetration with the media is related to governance dynamics (Asongu and Odhiambo, 2019) and the media can play a role in aligning managers 'and shareholders' interests (Liu et al., 2013).

Reilly and Hynan's research (2014) shows that green companies (environmentally responsible) are more active in the media than non-green companies. Corporate involvement in the media can also increase company performance (Carmen, et al., 2018: Kim et al., 2015). Likewise, companies that seek to improve governance (through collaboration) can improve sustainable performance (Niesten, et al., 2017) and firm value (Connely, et al., 2017). Therefore, the hypothesis can be formulated as follows:

H1a: Readiness for disclosure of sustainable finance in the media can increase the size of the board of directors as a mechanism in governance.

H1b: Readiness for disclosure of sustainable finance in the media can increase the proportion of independent commissioners as a mechanism in governance.

H1c: Readiness for disclosure of sustainable finance in the media can increase the size of the board of commissioners as a mechanism in governance.

H1 : Readiness of disclosure of sustainable finance in the media can encourage an increase in firm value.

H3a: A governance mechanism with a proxy for the size of the board of directors can encourage an increase in firm value.

H3b: Governance mechanisms with a proxy proportion of independent directors can encourage an increase in firm value.

H3c: Governance mechanisms with a proxy for the size of the board of commissioners can encourage an increase in firm value.

To further clarify the direction of testing, the following is a picture of the framework of thought:

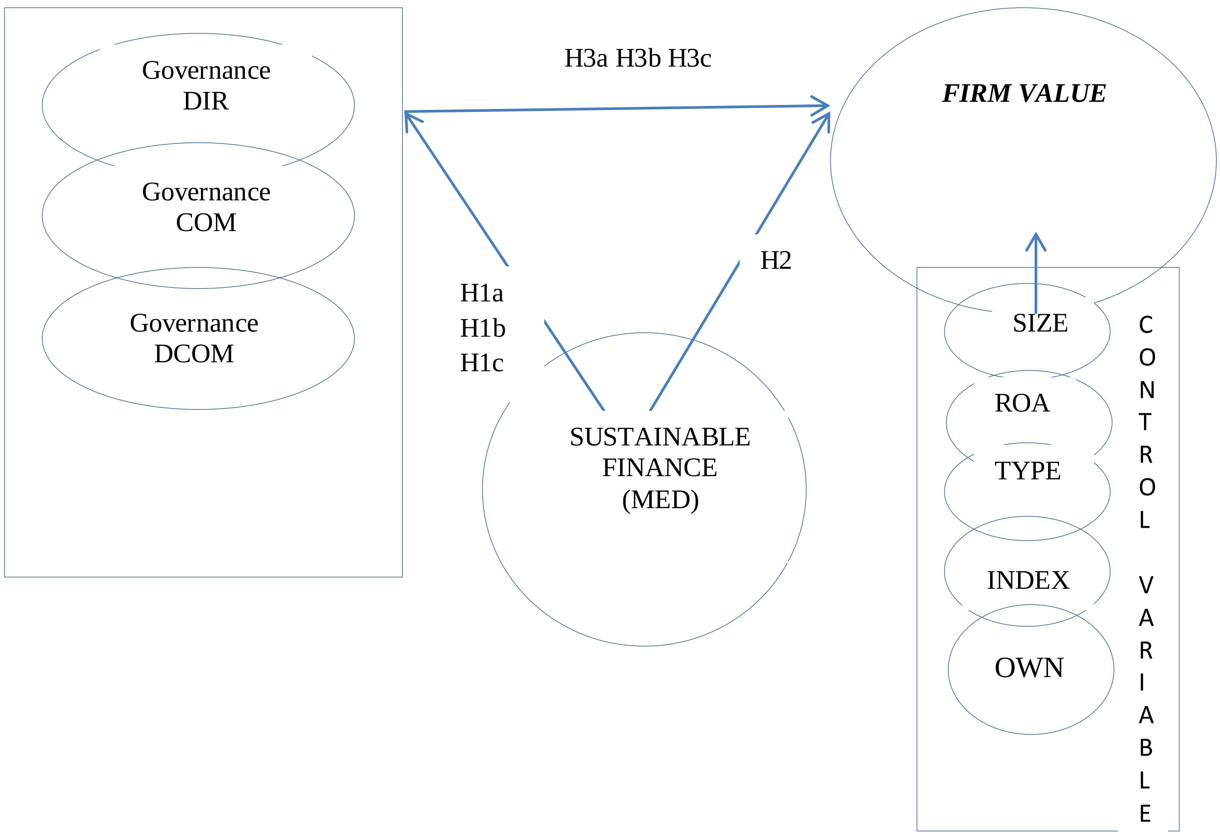

Figure 1: Research Framework

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III. RESEARCH METHODS

This research is a quantitative study using data from banking companies in Indonesia as many as 40 companies. The data is traced from the Indonesia Stock Exchange website idx.co.id in the form of a company annual report in 2019 and published summary data. In addition, readiness data through disclosure of sustainable finance in the media is also traced from the company's website and online media news with various related keywords.

The following table is the operationalization of variables and their measurements:

Table 1: Variable and Measurement

	Variable	Measurement
Dependent	*Firm Value (FV)*	*Price to Book Value*
	Governance	*(proksi DIR, COM, DCOM)*
Independent	*Sustainable Finance in Media (SF)*	*Dummy Variable* 1 = if disclosed in the media 0 = if not disclosed
	Governance (DIR)	The number of directors
	Governance (COM)	The number of the board of commissioners
	Governance (INDEP)	Proportion of independent directors
Control	*Size*	*Log total aset*
	Profitability (ROA)	*Return on Asset*
	Industry type (Type)	Type of stock 1 = main board 0 = development board
	Struktur kepemilikan *(OWN)*	Dummy Variable 1 = government ownership 0 = privat company
	SRI Kehati *Index (Index)*	*Dummy variabel* 1 = companies in the SRI Index 0 = companies outside the SRI Index SRI = *Sustainable Responsible Investment* Kehati = Yayasan Keanekaragaman Hayati Indonesia (*Indonesian Biodiversity Foundation*)

Test analysis in this study uses path analysis. The following research models will be tested:

DIR = $\alpha1 + \beta1$ SF + $\varepsilon1$

COM = $\alpha2 + \beta2$ SF + $\varepsilon2$

INDEP = $\alpha3 + \beta3$ SF + $\varepsilon3$

FV = $\alpha1 + \beta1$ SF + $\beta2$ DIR + $\beta3$ COM + $\beta4$ INDEP + $\beta5$ Type + $\beta6$ Size + $\beta7$ ROA + $\beta8$ Own + $\beta9$ Indeks

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IV. FINDINGS AND DISCUSSION

Based on descriptive statistical tests the following results are obtained:

Table 2: Descriptive Statistics Test Results

Variable	Minimum	*Maximum*	*Mean*	*Std. Deviation*
SF	0	1	.37	.490
DIR	3.0000	12.0000	6.400000	2.6871012
COM	2.0000	11.0000	5.025000	2.2813345
INDEP	.0000	1.0000	.579494	.1783552
FV	.2800	4.7900	1.678250	1.1295946
OWN	0	1	.18	.385
TYPE	0	1	.72	.452
ROA	-1.3900	2.3200	.771250	.8725917
SIZE	11.8653	15.0800	13.509146	.8220252
Indeks	0	1	.13	.335
N	40			

The above results show that the disclosure of sustainable finance (SF) through the media is still quite low with an average of 0.37. This means that not many companies have stated their readiness to implement sustainable finance through the media. For corporate governance variables which are proxied by the size of the board of directors, the average is already above 0.6, while the size of the board of commissioners still needs to be increased because the average is still 0.5, and the average independent commissioner has exceeded 0.5 and close to 0.6. Firm value proxied by PBV is a minimum value of 0, 28 and a maximum of 4.79, with an average of 1.678 and a standard deviation of 1.129.

The sample companies (40 companies) that are owned by the government (Own variable) are 0.18 on average with 0.72 board type. This means that 72% of the sample companies are selected companies on the main board of the exchange that meet certain criteria. ROA has a minimum value of -1,3900 and a maximum of 2.32, and an average of 0.77125. The size of the company has a minimum value of 11.8653, a maximum of 15.08, with an average of 13.5009146, and a standard deviation of 0.8220252. The SRI Kehati Index has an average of 0.13. This shows that not many banking companies are included in the SRI Kehati category because they are only 13% on average. This needs to get attention because this banking company will be a pioneer in driving the achievement of sustainability in Indonesia.

Through analysis path testing the following results are obtained:

Table 3: Testing Results of Research Models

$$\text{DIR} = \alpha + \beta_1 SF + e_1$$

$$\text{COM} = \alpha + \beta_2 SF + e_2$$

$$\text{INDEP} = \alpha + \beta_3 SF + e_3$$

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$$FV = \alpha + \beta_1 SF + \beta_2 Dir + \beta_3 Com + \beta_4 Indep + \beta_5 Own + \beta_6 Type + \beta_7 ROA + \beta_8 Size + \beta_9 Index + e_4$$

Varibel	***Prediksi***	***DIR***	***COM***	***INDEP***	***FV***	***Robust Model***
Constant		*5.440****	4.200***	0.557***	-3.484	0.132
	β+	2.560***	2.200***	0.060	-0.391	-0.263
SF		(3.256)	(3.308)	(1.031)	(-0.773)	(-0.605)
	β+				0.069	0.160
DIR					(0.365)	(1.439)
					-0.193	-0.126
COM	β+				(-1.345)	(-0.957)
	β+				2.263**	2.162**
INDEP					(2.115)	(2.054)
	β+				-0.138	
OWN					(-0.231)	
	β+				-0.182	
TYPE					(-0.334)	
	β+				-0.291	
ROA					(-0.966)	
	β+				0.348	
SIZE					(0.441)	
	β+				1.684**	
INDEKS					(2.387)	
R2		0.218	0.224	0.027	0.315	0.144
Adjusted R2		0.198	0.203	0.002	0.109	0.046
Fstat		10.605***	10.941***	1.062	1.532	1.473

*** Statistically supported at alpha 1%, ** at alpha 5%, * 10%

Source: Data processed, 2020.

The table above summarizes the results of testing the factors that influence SF disclosure and its impact on firm value, with good corporate governance mechanisms as an intervening variable. Company value is proxied by PBV, SF disclosure is a proxy for disclosure of sustainable finance, good corporate governance uses indicators of the number of directors, the number of boards of commissioners, and independent boards of commissioners. Independent board of commissioners is calculated from the proportion of the number of independent commissioners divided by the number of board of commissioners. Disclosure of sustainable finance is calculated using a dummy variable, 1 if disclosed in the media, 0 if not disclosed. The control variable used is ownership (government ownership or not / dummy variable), type is a type of dummy variable, ROA (profitability), size (company size calculated by log total assets) and the index is the SRI Kehati index (if enter index means 1 and if not 0).

Hypothesis testing is done by comparing t_statistik with t_tabel or by looking at the value of the significance of the results. The results of the detailed hypothesis testing will be described as follows:

a. Regression coefficient obtained from the influence of SF disclosure variables on the GCG mechanism as measured by the number of directors is 2,560 with a t_statistik value of 3,256> 1.96 at the significance level = 0.05 (5%) with a significance value of 0,000 <0.05 which states that there is a positive and significant influence between SF disclosure of the board of directors. The value of 2,560 in the regression coefficient indicates that if SF disclosure increases by 1, then governance with the proxy of the board of directors will increase by 2,560, and vice versa if SF disclosure decreases by 1, then governance will also decrease by 2,560. This result means that H1a has gained support. This result means that the readiness to disclose sustainable finance in the media can improve corporate governance (by proxying the size of the board of directors). These results confirm the same results as the Asongu and Odhiambo (2019) study which examined the media and dynamics of governance in Africa. The dynamics studied include political governance, economic governance, institutional governance, and general governance. These results provide evidence that through disclosure in company media, encouraging the involvement of the board of directors more seriously handling the implementation of sustainable finance which is a must for the banking industry in Indonesia starting in 2019.

b. H1b testing also gained support with a significance value of 0.0021 and R2 of 22%. These results prove that the readiness to disclose sustainable finance in the media can improve corporate governance (by proxying the size of the board of commissioners). These results also support the research of Asongu and Odhiambo (2019) and Liu and Connel (2017). In order for the board of directors and commissioners to be actively involved in the implementation of good corporate governance and also the implementation of sustainable finance, it is necessary to increase the disclosure of sustainable finance in the media. This needs to be emphasized that disclosure in the media is a form of fulfilling transparency, accountability and corporate responsibility which is a component of governance.

c. Other results for H1c testing do not support. This is likely because some sample companies still have a low proportion of independent commissioners. This can be seen from the minimum value of 0.0000 in descriptive statistics which means there are companies that do not have independent commissioners.

d. In testing Hypothesis 2 (H2) which examines the relationship between the readiness of disclosure of sustainable finance through the media with firm value, the results obtained do not support the hypothesis. This result needs to be tolerated considering that the implementation of sustainable finance is only 1 year, that is only for banking companies with book value categories 3, 4, and foreign. This result is different from the results of research by Gupta and Gupta (2020) which found evidence that environmental sustainability has a significant effect on the four dimensions of corporate performance (social, economic, environmental, and institution). Also different from Yu et al. (2013).

e. The H3a and H3b tests do not have support in testing, which also means that there is no evidence of a relationship between governance (proxy of the board of directors / DIR and board of commissioners / COM) with firm value. However, H3c gained support. These results indicate that governance with a proxy of an independent commissioner can increase firm value. These results support the findings Li dan Zaiat (2017), Niesten et al. (2017), Husted and Filho (2017), Almaskati, et al. (2020).

In the above test, there are control variables, namely Own, Type, Size, ROA, and Index. Of the five control variables, only the index has a significant positive effect on firm value. These results open up opportunities for the development of the SRI Kehati index and the need to encourage companies to compete to improve their sustainability disclosures so that they can be included in the SRI Kehati index. Companies included in this index are proven to be able to increase firm value.

When viewed from the robust test model, where control variables, namely Own, Type, Size, ROA, and Index are omitted, the test shows results that are consistent with the main research model. This shows that the results of this study are said to be *robust* or *sturdy*.

V. CONCLUSION AND SUGESTION

Based on the test results, it can be concluded that the disclosure of sustainable finance through the media needs to be encouraged because it can improve good corporate governance. Likewise, evidence is found that the implementation of governance with the involvement of independent commissioners can increase firm value. These results indicate that the government, in this case the OJK needs to provide more intensive direction so that companies can be interested in carrying out the disclosure of sustainable finance because it can improve compliance with governance criteria, especially transparency, accountability, and responsibility as well as companies through improving governance can improve firm value company.

An interesting finding in testing the control variable, namely that the SRI Kehati index which aims to encourage issuers to be socially responsible and have a concern for the environment has a significant effect on firm value. These results can certainly provide evidence that companies are competing to improve sustainability reports so they can fit into the SRI Kehati category so as to encourage maximum firm value.

The results of this study are expected to contribute to the implementation of new sustainable finance in the initial stages of implementation so that achievements are in accordance with the formulated roadmap. For future researchers, it can examine the difference in firm value between before and after the implementation of sustainable finance. This research only looks at banking finance companies so that in the next year, researchers can then review the implementation of non-banking financial companies and make comparisons between sacrifice and non-banking.

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