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Sustainability Report: The Role towards Stock Return of Banking Sector

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ABSTRACT: The purpose of this study is to gather empirical evidence on the effect of sustainability report disclosure on stock returns in banking sector companies listed in the category of BUKU 3 and BUKU 4 on the IDX for the 2019–2020 period. In this study, 23 banks were sampled, including local and foreign banks listed in the category of BUKU 3 and BUKU 4. The quantitative research method was used, with a pre-test and post-test hypothesis testing approach using the SPSS 26 program. The findings show a significant difference in stock returns before and after the bank discloses the sustainability report in accordance with Financial Services Authority Regulation (POJK) Number 51 of 2017.

KEYWORDS: Sustainability Report, Bank, Stock Return, BUKU 3 and BUKU 4.

I. INTRODUCTION

The Sustainability Report is a one-year report that contains information on the company's performance in several areas such as economic, environmental, and social. This report is addressed to the public as well as the shareholders as a form of corporate responsibility that is communicated transparently. This report also seeks to communicate the company's commitment to operating in a sustainable manner. Furthermore, the Sustainability Report provides all stakeholders with a broader and more transparent picture of the company's sustainable development activities.

Companies were not required to produce sustainability reports in the past, but with the passage of time and government demands for accountability, this report is now required of all businesses. It became popular in the 1980s after being initiated by a chemical company with the goal of repairing a tarnished image. The tobacco company was the other company that pioneered the sustainability report. The goal is to increase the number of people who are interested in investing their money (ethical investing).

In Indonesia, businesses voluntarily adopt and implement a sustainable reporting model. Reporting company information to stakeholders and the larger community is becoming more common, as evidenced by the fact that in 2005, the number of companies that adopted the new Sustainability Report was around ten, but by 2013, the number had risen to more than 100.

The increasing awareness and commitment of global corporations to implementing the Sustainability Report model is not triggered by strong pressure from global market players and government regulations, nor is it influenced by the corporation's own awareness of being accepted by stakeholders, but rather by various economic and non-economic benefits that can be obtained, both in the short and long term. The theoretical application of sustainability reports is thought to be capable of increasing stakeholders' appreciation for accountability and transparency of company information, which has a positive impact on their decisions. This application also makes funding and investment decisions easier for businesses, as well as business operations, and will improve business performance, financial performance, and company value in the long run. Furthermore, there are numerous advantages to implementing the Sustainability Report, which is thought to be capable of improving the company's image, reputation, and goodwill, as well as increasing innovation and continuous improvements, strategic competitive position, and a good and effective corporate governance system. Aside from the positive impact of market participants' or stakeholders' appreciation, other benefits that can be obtained include reduced business risk, financial risk, and corporate market risk.

If companies disclose the Sustainability Report, the community will recognize the company's existence and activities, indicating that the company has participated in sustainable development. This effectively declares that the company is superior to competitors. The company's zeal in disclosing sustainability report information indicates that the company is serious about achieving its long-term goals in order to attract the attention of conservative investors. This is due to the fact that investors prefer to invest in companies that are transparent and provide complete and accurate information in order to assist investors in their decision-making process [1]. Investors are interested in social information reported by companies in annual reports and believe that economic information alone is insufficient as a consideration for investment [2]. As a result of the reduced information asymmetry, investors will be interested in investing in companies that have been able to issue a Sustainability Report [3].

Investors will, of course, first analyze the condition of the company in question before making an investment decision by purchasing shares in the capital market. According to Jogiyanto, capital market participants will evaluate every announcement made by the company [4]. The greater the market's appreciation for the company, the higher the stock price [5]. An increase in stock prices provides hope for all investors because high stock prices will have an impact on shareholder prosperity. A rise or fall in stock prices will have an effect on rising or falling stock returns [6] [7]. Return can be defined as the benefits received in the future or the rate of return that investors will receive on their investments. This is also referred to as a stock return.

In 2019, the government hopes that financial companies in Indonesia, particularly banks, will demonstrate accountability and transparency in carrying out social and environmental responsibilities through sustainability reports issued in accordance with Financial Services Authority (OJK) Regulation number 51 of 2017, under which the banking sector is required to issue Sustainability Report's in 2019 for BUKU 3 and BUKU 4, and in 2020 for BUKU 1 and BUKU 2.

Banks that included in the category of BUKU 3 and BUKU 4: three banks out of a total of 13 banks included in BUKU 3 (23%) and one bank out of 10 (ten) banks included in BUKU 4 (10%) have not issued their Sustainability Report in 2019. Meanwhile, in 2020, there are one of three banks included in BUKU 1 (33.3 percent) and seven banks of 20 banks included in BUKU 2 (35 percent) that have issued Sustainability Report in the company's annual financial statements.

II. LITERATURE REVIEW

A. Sustainability Report

Sustainability Report is a non-financial report that companies can use as a reference to view reporting from social, economic, and environmental perspectives. Companies engage in Sustainability Report to measure, disclose, and strive to become an accountable company for all stakeholders in order to develop sustainable company performance [8].

According to Gray and Bebbington, Sustainability Report is a separate non-financial report from financial statements. This report focuses on the environment, and it includes ten statements, definitions, and missions, statements about company policies or goals, and progress toward environmental achievements issued by companies or organizations [9].

The Global Reporting Index (GRI) is an international organization based in Amsterdam, the Netherlands, whose main activities revolve around increasing a company's transparency and reporting through the development of standards. The Sustainability Reporting Guidelines are guidelines issued by this organization for the disclosure of sustainability reports. GRI defines Sustainability Report as the practice of measuring and disclosing company activities as a responsibility to all stakeholders for organizational performance in achieving sustainable development goals.

The Sustainability Report concept is a variant of John Elkington's Triple-Bottom Line concept, which emphasizes the three Ps (profit, people and planet). Companies that want to be sustainable must, in addition to profit, meet the needs of the community and contribute to environmental preservation. Year after year, Sustainability Report grew at a rapid pace. Every year, this report discusses the environment, health, and safety. In Indonesia, Sustainability Report is a type of voluntary report. This report is disclosed as an addition to the financial statements, but it is submitted separately from the company's financial statements.

The Sustainability Report must adhere to several GRI-G3 guidelines in its disclosure, including the following: (1) Balance. To provide clear information to report users, the Sustainability Report must describe both the positive and negative aspects of the company's performance; (2) Comparable. The information in the Sustainability Report must be consistently selected, collected, and reported in order for stakeholders to analyze information on changes in performance from year to year and support the analysis relative to other groups; (3) Accurate. Sustainability Report disclosure must be accurate and complete in order for information users to properly and correctly assesses the company's performance.

B. Stock Return

According to Irham Fahmi, stock return is the profit expected by an investor in the future against a number of funds that have been placed [11]. Expectations describe something that may occur that is not expected. Meanwhile, the difference between the amount received and the amount invested, as defined by Brigham and Houston, is divided by the amount invested [12].

In their book "the Fundamentals of Financial Management", Home and Wachoviz explain that stock returns are a type of benefit from cash dividends paid at the beginning of the year as well as capital gains realized at the end of the year [13]. According to some of the definitions above, stock returns are the rate of return in the form of rewards obtained from the sale and purchase of shares.

C. Type of Stock Return

According to Jogiyanto, stock returns can be divided into two categories: (1) realized return, which is a return calculated based on historical data, and (2) expected return, which is the return that investors expect to receive in the future based on the amount of funds invested [14].

D. Component of Stock Return

Tandelilin defines stock returns as having two components: (1) capital gain/loss, which is an increase or decrease in the price of a stock that can result in profits or losses for investors, and (2) yield, which is a return component that reflects the cash flow or income obtained on a regular basis from a stock investment [15].

The difference between the current investment price and the price for a specific period is referred to as capital gain or capital loss. The following formula can be used to calculate the amount of capital gain or loss:

$$R = \frac{Pt - Pt\text{-}1}{Pt\text{-}1}$$

If the current investment price (Pt) is greater than the previous period's investment price (Pt-1), there has been a capital gain; otherwise, there has been a capital loss. Yield is the percentage of periodic cash receipts toward the investment price of a specific period of a share investment; yield is the percentage of interest on loans obtained against the price of bonds in the previous period. As a result, the total return can be expressed as follows:

$$R = \frac{(Pt - Pt\text{-}1) + yield}{Pt\text{-}1}$$

However, because the company does not always spend out cash dividends to its shareholders on a regular basis, the stock return can be calculated as follows:

$$R = \frac{Pt - Pt\text{-}1}{Pt\text{-}1}$$

Abbreviation:

R = Stock Return

Pt = Current value of stock

Pt-1 = Previous value of stock

E. Stock Return Factors

According to Samsul, the following factors influence stock returns: (1) Macro factors, or external factors, such as macroeconomic and non-economic factors. Non-economic factors include domestic political events, foreign policy events, wars, demonstrations, and environmental cases; and (2) micro factors are considerations within the company, such as earnings per share, value per share, debt to equity ratio, and other financial ratios [16].

F. Regulation by OJK No: 51 Year 2017

According to OJK regulation number 51/POJK.03/2017, the application of sustainable finance principles in the Indonesian financial institution system is the implementation of Law Number 32 of 2009 on Environmental Protection and Management to develop and implement economic and environmental instruments, including an environmentally friendly policy for the banking, capital market, and non-bank financial industry.

The application of the sustainable finance principle is also a tangible manifestation of Indonesia's commitment to the international community by providing funding sources to mitigate and adapt to climate change.

According to Article 8 (6) points a and b, the first sustainability report must be submitted for the following reporting period: (1) January 1 to December 31, 2019 for LJK in the category of BUKU 3, BUKU 4, and foreign banks; and (2) January 1 to December 31, 2020 for LJK in the category of BUKU 1 and BUKU 2, finance companies, sharia finance companies, venture capital companies, sharia venture capital companies, infrastructure financing companies, insurance companies, sharia insurance companies.

G. Research framework and hypotheses

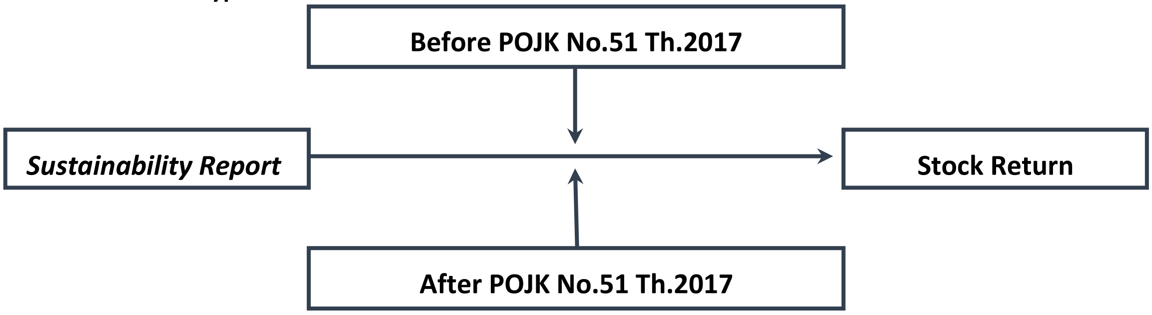

Figure 1: Conceptual framework

Hypotheses

This study measures four variables: Sustainability Report before POJK No.51 Th.2017, After POJK No.51 Th.2017, and Stock Return. As a result, the research hypotheses are:

H1: Stock Return influences the Sustainability Report, Prior to POJK No. 51 of 2017.

H2: Stock Return influences the Sustainability Report, after POJK No. 51 of 2017

III. METHODOLOGY

This study relied on secondary data in the form of an annual report. The secondary data is in the form of publications obtained from the Indonesia Stock Exchange website (http://www.idx.co.id) within two years before and one year after the enactment of POJK Number 51 of 2017. The banking sector listed in the category of BUKU 3 and BUKU 4 (Annual Report) that have been audited and published on the Indonesia Stock Exchange (IDX) for the 2019-2020 period is the population that is the subject of this research. The Purposive Sampling technique is used to collect the sample, as shown in the table below:

Table 1: Elimination Sample Selection Criteria

No	Description	Total
1	Banking Companies listed in BUKU 3 and BUKU 4 in 2019-2020	23
2	Banking companies whose financial reports provide incomplete data for the period 2019 and 2020.	(0)
3	Banking Companies that do not use Indonesian currency (Rp)	(0)
4	Banking companies do not routinely submit Sustainability Reports	(4)
	Total Sample	**19**

(Source: Processed data 2021)

Table 2: Population and samples

No	Company Code	Company Name	Category	Total Sample
1	BTPS	BANK BTPN SYARIAH TBK	BUKU 3	2
2	AGRS	BANK IBK INDONESIA TBK	BUKU 3	2
3	BBKP	BANK KB BUKOPIN TBK	BUKU 3	2
4	MAYA	BANK MAYAPADA INTERNASIONAL TBK	BUKU 3	2
5	BNII	BANK MAYBANK INDONESIA TBK	BUKU 3	2
6	MEGA	BANK MEGA TBK	BUKU 3	2
7	BJBR	BANK PEMBANGUNAN DAERAH JAWA BARAT	BUKU 3	2
8	BJTM	BANK PEMBANGUNAN DAERAH JAWA TIMUR	BUKU 3	2
9	BNLI	BANK PERMATA TBK	BUKU 3	2
10	BBTN	BANK TABUNGAN NEGARA (PERSERO)	BUKU 3	2
11	BTPN	BANK BTPN TBK	BUKU 4	2
12	BBCA	BANK CENTRAL ASIA TBK	BUKU 4	2
No	**Company Code**	**Company Name**	**Category**	**Total Sample**

13	BNGA	BANK CIMB NIAGA TBK	BUKU 4	2
14	BDMN	BANK DANAMON INDONESIA TBK	BUKU 4	2
15	BMRI	BANK MANDIRI (PERSERO) TBK	BUKU 4	2
16	BBNI	BANK NEGARA INDONESIA (PERSERO)	BUKU 4	2
17	NISP	BANK OCBC NISP TBK	BUKU 4	2
18	PNBN	BANK PAN INDONESIA TBK	BUKU 4	2
19	BBRI	BANK RAKYAT INDONESIA (PERSERO)	BUKU 4	2
Total				**38**

(Source: Processed data 2021)

IV. RESULTS AND DISCUSSION

A. Research findings

Descriptive Statistics

It is obtained through the use of descriptive statistics analysis as shown on below table.

Table 3: Descriptive analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PRETEST	23	11,00	26000,00	4120,7391	6075,38098
POSTTEST	23	11,00	33425,00	4600,0000	7538,69052
Valid N (listwise)	23				

(Source: Processed data 2021)

Table 3 shows that the total number of research samples (N=23). On the pretest and posttest, the minimum and maximum values of stock return variables are 11.00 and 11.00, respectively. With an average value of 4120.74 and 4600.00, respectively, and standard deviations of 6075.38 and 7538.69.

Paired Test

Based on the results of the normal test, it appears that the data is normally distributed, allows the researcher to conduct the Paired Test and obtain the results:

Table 4: Paired Test BUKU 3 and BUKU 4

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRETEST	4120,7391	23	6075,38098	1266,80450
	POSTTEST	4600,0000	23	7538,69052	1571,92564

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRETEST & POSTTEST	23	,982	,000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	PRETEST - POSTTEST	-479,26087	1958,10377	408,29286	-1326,00844	367,48670	-1,174	22	,253

(**Source**: **Processed data 2021**)

The table above shows a significant value of t = -1.174, inferring that t 0.05, H0 is rejected. This indicates that one independent variable has a significant influence on the dependent variable.

B. Discussion

The results of the descriptive analysis (Table 3) and paired tests (Table 4) show that stock returns on banks included in BUKU 3 and BUKU 4 before and after the enactment of POJK No. 51 of 2017 were 4,120 and 4,600, respectively, indicating that there are significant differences. Significant impact on stock returns before and after the Sustainability Report presentation provision is implemented in accordance with POJK regulations No. 51 of 2017. The findings of this study concede with Effendi that the Sustainability Report is a non-financial report that the company can use as a reference to see reporting from the social, economic, and environmental dimensions [17]. The company performs Sustainability Report to measure, disclose, and the company's efforts to become a company that is accountable to all stakeholders for the company's performance toward sustainable development. The Sustainability Report has an effect on increasing stock returns, which boosts investor confidence in banks. The greater the market's appreciation for the company, the higher the stock price [18]. An increase in stock prices provides hope for all investors because high stock prices will have an impact on shareholder prosperity.

V. CONCLUSION

The purpose of this study is to empirically demonstrate the effect of Sustainability Report disclosure on stock returns in banking sector companies listed on the IDX in the category of BUKU 3 and BUKU 4 for the 2019-2020 period. In this study, 23 banks were sampled, including local banks and foreign banks listed in the category of BUKU 3 and BUKU 4.

Based on the findings of research conducted in several stages, beginning with data collection, data analysis, and interpretation of the results of the analysis regarding the effect of Sustainability Report disclosure on stock returns, it is possible to conclude that the disclosure of Sustainability Reports in banking sector companies listed in the category of BUKU 3 and BUKU 4 on the IDX for the period 2019 – 2020 has a significant effect on stock returns.

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