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The Role of Profitability in Moderating the Influence of Sustainability Reporting and ESG Disclosure on Firm Value in Local Publicly-Owned Enterprises in Bogor City

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Abstract

The results of this study indicate that ESG Disclosure and Sustainability Reporting have a significant effect on firm value. Meanwhile, profitability, proxied by Return on Assets (ROA), does not have a significant effect on firm value, proxied by Ln Asset. The results of the moderation test indicate that profitability is unable to moderate the relationship between ESG Disclosure and firm value, while the results of the moderation test on Sustainability Reporting show a significant positive effect. Simultaneously, all independent variables and interaction variables have a significant effect on firm value with a Prob (F-statistic) value of 0.000. The Adjusted R-Squared value of 0.764670 indicates that the variables in the study are able to explain 76.46% of firm value. This research is expected to be a reference for companies in improving the quality of ESG disclosure and Sustainability Reporting to increase firm value.

Introduction

Local Publicly-Owned Enterprises, or better known as Perumda, are a form of Badan Usaha Milik Daerah (BUMD) regulated under Undang-Undang Nomor 23 Tahun 2014 concerning Local Government and Peraturan Pemerintah Nomor 54 Tahun 2017 concerning Badan Usaha Milik Daerah (BUMD). Perumda play a strategic role in supporting regional economic development and providing public utility through the provision of quality goods and/or services for the community, while also being expected to generate profits to increase pendapatan asli daerah. With these characteristics, Perumda are required to be managed professionally, transparently, and accountably to maintain a balanced public service function.

At the local level, particularly within the Pemerintah Daerah Kota Bogor, there are several Perusahaan Umum Daerah operating in the public service sector, including Perumda Tirta Pakuan (PDAM), Perumda Pasar Pakuan Jaya, Bank Kota Bogor, and Perusahaan Daerah Jasa Transportasi. Based on a review of public documents on the official portal of the Pemerintah Kota Bogor, the published information is still dominated by annual financial statements and accountability reports. Although some information regarding environmental, social, and governance aspects has been disclosed in corporate reports, these disclosures have not been presented comprehensively and structurally in the form of a sustainability report that aligns with applicable sustainability reporting standards.

This condition indicates that ESG Disclosure and Sustainability Reporting practices in Perusahaan Umum Daerah still require improvement to support corporate transparency and accountability. On the other hand, global pressure regarding the implementation of sustainability principles continues to escalate. The United Nations agenda through the Sustainable Development Goals (SDGs), the development of green finance, and the demand for ESG integration within sustainable financial systems drive public sector organizations to increase sustainability transparency.

In Indonesia, Otoritas Jasa Keuangan has issued POJK Nomor 51/POJK.03/2017 which requires financial services institutions, issuers, and public companies to prepare sustainability reports.

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Therefore, this research is important to conduct as it offers a new perspective by examining the role of Profitability in moderating the influence of Sustainability Reporting and ESG Disclosure on the firm value of Perumda, which is an approach that has never been done before. In previous empirical studies, research objects generally focused on companies listed on the capital market due to the relatively more complete, standardized, and easily accessible data availability. Meanwhile, empirical studies regarding ESG Disclosure and Sustainability Reporting in Perusahaan Umum Daerah, particularly Perusahaan Umum Daerah di Kota Bogor, are still relatively limited. The limited availability and consistency of company report publications in Perusahaan Umum Daerah di Kota Bogor indicate that transparency and information disclosure practices still face various obstacles. Out of the four Perusahaan Umum Daerah that make up the research population, only two Perusahaan Umum Daerah have completely available financial statements and corporate documents during the observation period. This condition causes empirical studies regarding ESG Disclosure and Sustainability Reporting in Perusahaan Umum Daerah to remain relatively limited compared to research on companies listed on the capital market.

Method

This research uses a quantitative approach with an explanatory method aimed at explaining the causal relationships between Sustainability Reporting, ESG Disclosure, profitability, and firm value in Perusahaan Umum Daerah (Perumda) di Kota Bogor. The quantitative approach was selected because this study tests hypotheses formulated based on theories and previous research through measurable and objective statistical analysis. The explanatory method is used to test the direct influence of Sustainability Reporting and ESG Disclosure on firm value, as well as to analyze the role of profitability as a moderating variable in strengthening or weakening that relationship.

Based on the problem formulation and hypotheses proposed in this study, the variables used consist of independent variables (free), dependent variables (bound), and a moderating variable. Independent variables are variables that influence or cause changes in the dependent variable, while the dependent variable is the variable that is influenced or results from the existence of the independent variables. Meanwhile, the moderating variable plays a role in strengthening or weakening the relationship between the independent variables and the dependent variable within the utilized research model.

Table 1: Operational Definition of Variables

No	Variable	Indicator	Scale
1	*Sustainability Reporting* (X1)	$SR = \frac{\text{Total items reported by the company}}{\text{Total GRI standard reporting items}}$	Ratio
2	*ESG Disclosure* (X2)	$ESG = \frac{\text{Total company disclosure items}}{\text{Total GRI standard disclosure items}}$	Ratio
3	*Firm Value* (Y)	$\text{Firm Value} = \ln(\text{Total Assets})$	Ratio
4	*Profitability* (Z)	$\text{ROA} = \frac{\text{Profit After Tax}}{\text{Total Assets}}$	Ratio

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Results

This study aims to analyze the influence of ESG Disclosure and Sustainability Reporting on firm value as moderated by Profitability in Perusahaan Umum Daerah at Kota Bogor. Data analysis was conducted using Moderated Regression Analysis (MRA), with the MRA test results as follows:

Table 2 : MRA Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.64799	0.737966	25.26942	0.0000
ESG	12.01197	1.243813	9.657379	0.0000
SR	2.728646	0.195383	13.96562	0.0000
ROA	0.191698	0.590322	0.324734	0.7460
ESG_ROA	-0.489410	0.990671	-0.494019	0.6222
SR_ROA	0.268277	0.157228	1.706288	0.0907

Based on the moderation regression test results above, the conclusions that can be drawn are as follows:

1. In the regression test results, it can be seen that the significance value of the SR variable on Firm Value is 0.0000 (< 0.010); thus, it can be concluded that the SR variable has an effect on Firm Value.
2. It is known that the significance value of the ESG variable on Firm Value is 0.0000 (< 0.10); thus, it can be concluded that the ESG variable has an effect on Firm Value.
3. It is known that the significance value of the ROA variable and Firm Value is 0.7460 (> 0.10), so this is declared not significant, meaning that ROA does not have a direct effect on Ln Asset.
4. It is known that the significance value of the moderation variable with ESG on Firm Value is 0.6222 (> 0.10), so it can be concluded that the moderation variable with ESG on Firm Value does not have a significant effect.
5. It is known that the significance value of the moderation variable with SR on Firm Value is 0.0907 (< 0.10), so it can be concluded that the moderation variable with SR on Firm Value has a significant effect.

Hypothesis Testing

The t-test is used to partially test the effect of the independent variables (ESG Disclosure and Sustainability Reporting) on the dependent variable (Firm Value measured by Ln Asset). This t-statistic test is used to observe the significance of the effect between the independent variables on the dependent variable and to test whether the research hypotheses are accepted or rejected.

This testing is conducted by looking at the probability value with the following criteria::

a. If the probability value is < 0.10, then the Hypothesis is Accepted
b. If the probability value is > 0.10, then the Hypothesis is Rejected

Tabel 3 : Hasil Uji T

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.64799	0.737966	25.26942	0.0000
ESG	12.01197	1.243813	9.657379	0.0000
SR	2.728646	0.195383	13.96562	0.0000
ROA	0.191698	0.590322	0.324734	0.7460
ESG_ROA	-0.489410	0.990671	-0.494019	0.6222
SR_ROA	0.268277	0.157228	1.706288	0.0907

Based on the T-test results in Table 4.6 above, the hypothesis conclusions can be determined as follows :

a. The partial test results show that the SR variable has a probability value of 0.0000 (< 0.10), so H0 is rejected and H1 is accepted.
b. The partial test results show that the ESG Disclosure variable has a probability value of 0.0000 (< 0.10), so H0 is rejected and H1 is accepted.

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c. The partial test results show that the ROA variable has a probability value of 0.7460 (> 0.10), so H0 is accepted and H1 is rejected.
d. The partial test results show that the moderation variable with Sustainability Reporting on firm value has a value of 0.0907 (< 0.10), so H0 is rejected and H1 is accepted.
e. The partial test results show that the moderation variable with ESG Disclosure on firm value has a value of 0.6222 (> 0.10), so H0 is accepted and H1 is rejected.

Conclusion

Based on the research results and discussion conducted by the author regarding the role of profitability in moderating the influence of Sustainability Reporting and ESG Disclosure on firm value in Perusahaan Umum Daerah at Kota Bogor for the 2021-2025 period with a total sample of 120, the following conclusions can be drawn:

1. In this study, it can be concluded that ESG Disclosure has an effect on firm value, and the partial test results show a probability value smaller than the 10% significance level, so the hypothesis is accepted.
2. Sustainability Reporting has an effect on firm value, indicating that better disclosure of the Sustainability Report can increase firm value.
3. Profitability measured using ROA does not have a direct effect on firm value because the probability value is greater than the 10% significance value.
4. The profitability moderating variable on the relationship between ESG Disclosure and firm value is unable to either strengthen or weaken the relationship.
5. The profitability moderating variable on the relationship between Sustainability Reporting and firm value is able to moderate the relationship.
6. Simultaneously, ESG Disclosure, Sustainability Report, Profitability, and the interaction variables have an effect on firm value. This is proven by the Prob(F-statistic) value of 0.000, which is smaller than the 5% significance value.

Suggestions

Based on the research results that have been conducted, the author provides the following suggestions:

1. Companies are expected to continuously improve the quality and quantity of ESG Disclosure and Sustainability Reporting, given that the research results show a positive and significant effect on firm value. This can certainly serve as input in formulating strategic plans for the companies.
2. Future research is suggested to increase the company sample size and extend the research period to obtain broader and more accurate results.
3. This study uses the Global Reporting Initiative (GRI) standards to measure ESG Disclosure and Sustainability Reporting performance. For future research, it is suggested to consider using other reporting frameworks, such as the Sustainability Accounting Standards Board (SASB) or the Task Force on Climate-related Financial Disclosures (TCFD).
4. In this study, firm value is measured using Ln Asset. Future researchers are advised to consider different proxies for firm value other than Ln Asset.
5. The research results show that ESG Disclosure and Sustainability Reporting affect Firm Value as proxied by Ln Asset. Therefore, future researchers are suggested to use Tobin's Q or other indicators that indicate potential influence in order to obtain more comprehensive findings.

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