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Factors Affecting the Value of Indonesian Banking Companies: The Moderating Role of Profitability

Dinda Alifa Rizki Aprillia[1]; Taufik Akbar[2*]

[1, 2] Department of Accounting, Mercu Buana University, Jakarta, Indonesia

Corresponding Author: Taufik Akbar[2*]

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Abstract: This research aims to analyze the influence of Sustainability Report Disclosure, Company Characteristic as proxied by its size, and Capital Structure moderated by profitability on the value of banking companies registered at Indonesia Stock Exchange (IDX) from year 2020 to 2022. It involves secondary data in the form of both sustainability and annual reports from 20 banking companies that have met established criteria. The data analysis process is conducted through multiple regression model using Eviews 13. The results show that (1) Sustainability Report Disclosure does not affect company value, (2) Company Characteristic, proxied by size, does not affect company value, (3) Capital Structure does not affect company value, (4) Profitability strengthens the influence of sustainability report disclosure on company value, (5) Profitability is unable to moderate the influence of company characteristic on its value, and (6) Profitability weakens the influence of capital structure on company value. The implication of this research is not only limited to the need for extending research period and/or adding more companies as sample but also giving comprehensive insight related to the development of strategy that enhances company value for management and related stakeholders.

Keywords: *Sustainability Report Disclosure; Company Characteristic; Capital Structure; Company Value; Profitability.*

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I. INTRODUCTION

Value maximization has become widely accepted purpose for establishing a company according to modern Theory of the Firm. Allen *et al*. (2020) defines company value as the summary of collective assessment made by investors about the current performance of a company and its future (prospect). The importance of company value is not only limited to internal management itself but also industry and economy in general. For internal management, the company value is used as an important indicator to determine its success in managing available resources. Meanwhile, the importance of company value for industry is explained by DePamphilis (2018) in which it can be estimated through value indicator for comparable companies, transaction, or industry average. Specifically, the company value provides an important overview of its position compared to those competitors in the same industry, evaluation regarding the competitiveness between industries, and measurement of contributions given to advance the economic growth of a country. As for the global economy, the company value has such significant role because it represents the current economy state besides concern over the livelihood of many people. Brigham & Ehrhardt (2017) support previous notion in which they explain that when manager takes action to improve company value, it will have positive impacts for the living standard of a certain community namely the decreasing number of unemployment and poor people as well as the strengthening in purchasing power of society due to massively increasing consumption and investment activities. The country will also get additional income through its taxation system applied so that the economic growth can be optimized.

Company value however is oftentimes fluctuating in which it keeps moving up and/or down inconsistently over a certain period. Stock prices are frequently used indicator for determining such fluctuation. The most extreme fluctuation was experienced by several stock prices of Indonesian banking companies, especially those operating on a digital basis, during Covid-19 pandemic period from the year 2020 to 2022 namely Bank Jago (Code: ARTO) and PT Bank Raya Indonesia Tbk (AGRO). According to Datanesia (2023), the stock price of ARTO before pandemic period was 4.300 IDR for each share then skyrocketed at the end of 2021 to 19.000 IDR but in 2022 the price significantly dropped until it reached 2.350 IDR. Besides that, referring to Annual Report data, the stock price of AGRO also suffered from such fluctuation in which at the fourth quarter of 2021 it reached 1.810 IDR compared to previous period which was 1.035 IDR for each share but in 2022 the price sharply declined to 404 IDR. Such uncertain movement of company

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value surely will have full impact on investment decision-making process, formulation of policies made by management, and the stability of industry performance in general leading to current economy state of a certain country. This research is therefore important to be conducted to identify and test empirically potential factors affecting company value so that deeper understanding can be obtained for more optimal decision making.

There are factors, both non-monetary and monetary related, potentially affecting company value such as Sustainability Report Disclosure, Company Characteristics proxied by its size, and Capital Structure. Mio *et al*. (2024) defines Sustainability Report disclosure as a structured process undertaken by organisations to communicate economic, environmental, and social-related informations to stakeholders transparently. The survey result conducted by KPMG on Gbangbola & Lawler (2020) states that there is a strong relationship between sustainability reporting practice and the increase in investment return. Previous research results in line with such notion are Machmuddah *et al*. (2020), Linh *et al*. (2022), and Latifah (2020). In contrast, the finding from research conducted by Jemunu *et al*. (2020) states that sustainability report disclosure negatively affected company value while others like Daito *et al*. (2022), Putri & Mutumanikam (2022), as well as Igbinovia & Agbadua (2023) find that sustainability report disclosure did not affect company value.

Characteristic is what makes a company different compared to its competitor in similar industry. Ciani *et al*. (2020) explains various types of company characteristics namely age, ownership, managerial experience, legal form, and size. This research will use size as the proxy for company characteristic variable. According to Hong *et al*. (2021), a company managed to fulfill the value maximization purpose tends to experience significant growth as indicated by the increase of its size through total assets hence more workers are required to work there. This theory-based statement is supported by previous research results from Nguyen *et al*. (2021), Setiyawati & Sudrajat (2021), as well as Nursetya & Hidayati (2020). They said that the company size has positive influence on its value. Surjandari & Wibowo (2023) said otherwise that company characteristic, as proxied by its size, negatively affects its value. In addition, past results from Santoso & Junaeni (2022) stated that company size did not affect, in other words, had no significant influence over its value.

According to Houston *et al*. (2023), Capital Structure as the final independent variable used in this research is defined as the combination of debt, preferred stock and/or common equity used to finance the asset owned by company. The correlation between capital structure and company value is explained by Atrill (2020). Specifically, the most optimal form of capital structure is one maximizing the increase in company value hence it indicates that there is a positive influence between both variables. Some previous research results supporting the notion above were Nopianti & Suparno (2021) as well as Haznun & Akbar (2022). Fitria & Irkhami (2021) in their past finding otherwise said that capital structure negatively affects company value. Meanwhile, Dang & Do (2021) as well as Risman & Putro (2021) altogether said that capital structure has no significant influence over company value.

In addition, this research uses profitability as moderating variable. Warren *et al*. (2018) defines profitability as the ability owned by company to generate (future) earnings depending on results from its operational activity and asset utilization. Profitability in this case has indirect relationship with company value as shown by its ability to influence operational-related things that might determine the fluctuation namely public transparency aspect, resource capacity, as well as strategy applied by management. However, the research gap is still identified on previous research results regarding the use of profitability as moderating variable. For instance, Budiana & Budiasih (2020) said that profitability is able to moderate sustainability reporting disclosure influence towards company value as well as Isa *et al*. (2024) with positive coefficient. Meanwhile, Setiyawati & Utami (2021) said that profitability is unable to moderate the influence of sustainability report on company value.

Another research gap regarding the use of profitability as moderating variable especially to moderate the influence of company characteristic as proxied by its size on company value is found in several past research results which will be explained next. Previous finding from Raharjo & Muhyarsyah (2021) said that profitability can positively moderate the influence of company size on its value in a significant way (strengthen). The similar result can also be found on Ardyansyah & Arifin (2023) while Deme *et al*. (2022) otherwise said that profitability weakens the influence of company size on its value. Last but not least, such research gap regarding the usage of profitability to moderate the capital structure influence on company value can be identified through past results namely from Almomani *et al*. (2022) and Bahriah *et al*. (2022) as well as Amalina & Insani (2023). Specifically, while most previous results said that profitability is able to moderate the influence of capital structure on company value, the latter stated otherwise.

The novelty aspects of this research however are not only limited to the period and object chosen namely banking industry during Covid-19 pandemic happened from the year 2020 to 2022 but it also covers the theoretical and methodology aspect. The use of Theory of the Firm as one of the grand theories indicates theoretical novelty aspect offered by this research because past researches rarely used such theory despite its ability to clearly explain relationship between variables. Meanwhile, the usage of new GRI Standards 2021 to measure Sustainability Report Disclosure variable value represents another novelty aspect found on this research in terms of methodology. Such standard allows for early implementation and more disclosed items up to 117 so that not only it shows methodological update as previously explained but also provides more accurate and relevant results with the development of global sustainability reporting practice.

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As previously explained, most previous researches about factors potentially affecting company value are conducted on nonfinancial industry mainly manufacturing sector. Therefore, the decision to choose financially related industry such as banking is considered as the main novelty aspect in this research aside from used period, neither prepandemic nor postpandemic.

UU No. 10/1998 (Indonesian Law) defines bank as the entity responsible for collecting funds and distributing them in the form of credit to elevate the living standard in common. As a type of industry, bank has a certain characteristic in which its operational aspects are Highly Regulated. It indicates the presence of actual intervention made by regulator, in this case the central Government, regarding how banks should ideally operate given its crucial role in supporting economic growth. Such intermediary function, referring to the simultaneous role of banks collecting and distributing funds, will be more optimal in terms of its implementation if they start realizing the importance to maximize the increase in company value. The capital costs will also be lowered because of such increase so that the offered public loan is going to have more competitive interest rates namely home ownership credit and become more accessible. Consequentially, it will trigger more consumption and investment activities leading to the advancement economic growth of a country. Given the highly regulated nature of banking industry however, it brings specific challenge for banking companies in their attempt to maintain and even improve company value especially during the Covid-19 pandemic period happened from the year 2020 to 2022. Considering the uncertainty it gives for global economy, this research becomes more urgent to be conducted to empirically prove the presence of influence from both monetary and non-monetary factors on company value fluctuation, especially for banking industry during certain condition like Covid-19 pandemic. More adequate knowledge about factors affecting company value will help to optimize related decision-making process and eventually produce more relevant decision as the outcome specifically for banking industry, given its major contribution of maintaining financial stability of a nation.

II. LITERATURE REVIEW, CONCEPTUAL FRAMEWORK, AND HYPOTHESES

A. *Literature Review (Grand and Specific Theories*)

➤ *Grand Theories*

- *Agency Theory*

Scott & O'Brien (2019) defines Agency Theory as a branch of game theory studying the design of a contract to motivate agent for rationally acting on behalf of principal despite potential conflict of interest. In this case, manager serves as the agent while company owners become principal and sometimes the relationship between these two does not run smoothly. It happens because managers oftentimes implement policy which only benefits them without considering the need of company owners. Such situation is also known as agency problem and if it fails to be handled well, then the related costs will rise significantly namely external audit fees as well as stock option or annual bonus as part of managerial incentive.

According to agency theory, every single managerial decision made by manager should support the interest of company owners or shareholders in this case, namely the value maximization. However, given the potential conflict of interest presence as pointed out by this theory, not all actions taken by manager lead to the fulfillment of such purpose. Agency theory is therefore used as one of the grand theories in this research to give complete understanding about actions made by manager that potentially affect the company value maximization attempt as desired by company owners. For instance, the sustainability report disclosure practice done to reduce information asymmetry so that agency costs will significantly reduce whilst public trusts are improved and so is the company value, the use of value maximization principle or empire-building as main basis for manager running a company, as well as the decision made regarding capital structure formula to optimize the increase of company value. In addition, information asymmetry is referred to the lack of knowledge owned by a certain party about the involvement of other parties in a business transaction while empire-building principle is defined as attempts done by the manager to expand the current size of a company namely for getting more power, larger workforce so that related compensation will be given much bigger, and even market influence.

Agency theory can also be used to explain the role of profitability as moderating variable on this research. According to this theory, profitability motivates and evaluates the performance of a manager. Specifically, it does not only assess alignment between actions taken by manager rooted from the managerial decision with owner interest namely value maximization but also serves as basis for the managerial incentive calculation. Such incentive is the commonly applied scheme to motivate managers for acting rationally on behalf of company owner known as shareholders, in other words, adjusting with their need to maximize the investment return value. Depending on how much profit earned from operational activity, profitability can either strengthen or weaken the impact of sustainability report disclosure, company characteristic as proxied by its size, and capital structure toward company value. They represent the implementation of managerial decision made by manager that might affect the company value fluctuation. Specifically, profitability can help to (1) encourage more comprehensive sustainability report disclosure to reduce the information asymmetry potential namely through detailed explanation of CSR-based activities in a specific period, (2) mitigate opportunistic behavior of manager, triggered specifically due to increase in company size, by giving managerial-based incentive such as annual bonus, and (3) determine how the use of debt by company as part of capital structure is perceived, considering its connection with covered financial risk.

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- *Stakeholders Theory*

Rankin *et al.* (2018) explains that Stakeholders Theory consists of two different perspectives, one is ethical-based in which company has the responsibility to treat stakeholders decently while the other is managerial-based in which company must prioritize the interest of stakeholders directly affecting its business sustainability such as consumers and suppliers. Akbar & Siti-Nabiha (2022) defines stakeholders as those who are affecting and/or affected by the attempt of company to reach its ultimate goal. Based on its source, stakeholders consist of external namely media, government, and creditors such as bank as well as internal namely employees, investor, and management themselves. Rezaee *et al*. (2019) said that stakeholders theory is in line with enlightened value maximization concept in which sustainable performance and long-term company value optimization become essential criteria to balance the interest of all stakeholders. Therefore, this research uses stakeholders theory as part of grand theories aside from its correlation with all variables used as explained below.

From the perspective of stakeholders theory, sustainability report disclosure is often done by company as a strategic step taken to balance the diversity of interests owned by stakeholders in addition to show its true commitment over long-term sustainability business practice. Such practice does not only improve the transparency aspect by disclosing nonmonetary information but also boosts the trust and need of stakeholders to invest hence in the future both reputation as well as company value will be increased.

Nicolescu and Nicolescu (2021) explains that the number of stakeholders increases alongside the size and complexity of the organization. Specifically, as company grows the organization complexity will increase and so will number of stakeholders. The relationship management between company and its stakeholders is therefore essential. The larger size of a company, it enables related process to be done more effective and efficiently due to higher capacity of available resources. Stakeholders will appreciate furthermore companies which are more responsive in fulfilling their needs, in other words, expectation hence it is able to improve both reputation and value of such company.

In the perspective of stakeholders theory, Capital Structure is not only seen as reflection of financial decision taken by company but it also gives an indirect idea about how related stakeholders are treated namely employees. Research result conducted by Bae, Kang, and Wang shows that companies with lower number of Debt-to-Equity ratio (DER) are known for their fair treatment to employees specifically by giving them incentive on a regular basis. Such treatment will create harmonious relationship between company and its employees as indicated by more productive working environment with less conflict so the need for external financing to solve the employment-related issues can be reduced. The implication of past finding above highlights the need for having a more than just ideal kind of capital structure, but one that is structurally healthy for the company so that related financial risk can be minimized and the company will also gain more investors to invest that will lead to increase in its value eventually.

Regarding the use of profitability as moderating variable in this research and its correlation with Stakeholders theory, it generally determines the level of financial capacity owned by company essential for its effort to reach the goal of value maximization. Such financial capacity for instance will determine whether the quality of sustainability report disclosure of a company can be improved namely by hiring institution with relevant competency to do external verification independently or not so that it ends up as a matter of formality instead with no actual contribution given to the value maximization attempt.

In the context of company characteristic as proxied by its size, large companies often get more attention from stakeholders in terms of their accountability in managing available resources namely the assets it owns to improve their financial performance. The larger size of a company, as indicated by the increase in its overall total assets, does not always guarantee related value to optimally improve. A company happening to have large size and earn more profit from its business activity indicates that it has used owned assets effectively as well as efficiently in order to reach those goals. Stakeholders specifically investors tend to appreciate such effort of improving financial performance through asset utilization made by the company because it is expected to lead to an increase on its value. Otherwise, companies with such large size but small profit indicate that there are both ineffective and inefficient use of assets to generate them. Those unused assets will be perceived by investors as wasteful extravagance contributing nothing to the value maximization attempt.

In the context of capital structure, companies with high profitability level are perceived as very capable to manage their debt well for financing purpose. Such financial-related risk from its use namely the occurrence of additional interest expenses that need to be paid altogether can be handled by those companies given their large financial capacity to do so. On the other hand, low profitability level often comes as the consequence borne by companies for their inability to manage the financial risk brought by massive debt usage given the additional interest expense that must be paid with its principal amount. This will contribute nothing even negatively to the value maximization attempt done because investors are going to start doubting the ability of such company to manage its resources and maintain its sustainable business practice in the long-term. As the consequence, investors rarely want to place their capital on company with such high risk but low return.

- *Theory of the Firm*

Walker (2023) explains that Theory of the Firm seeks to explain why firms exist, how firms are established, and what kind of contribution given to the economy. Aside from value maximization as the ultimate goal, some reasons for establishing a company according to Brick (2017) are to optimize the increase in profit, mitigate related risks, expand the market coverage as well as improving the growth and

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public prosperity. The explanation above justifies such use of Theory of the Firm as another grand theory in this research.

Sustainability report disclosure is practiced by companies to mitigate related risks such as reputation, compliance, and financial-related that might hold them back from reaching their value maximization goal. In Indonesia, such practice has been regulated through various regulations namely Company Law No. 40/2007 and The Indonesia Financial Services Authority regulation (POJK) Number 51/POJK.03/2017 then followed up by the release of SEOJK No. 16/2021 regulating format of sustainability report disclosure for financial service institutions in this case is bank, issuer as well as public companies. Companies that do not adhere with these regulations will receive sanction from the regulator mainly in the form of written warning (administrative). Such sanction will damage the long-built positive reputation of that company and contribute negatively to value maximization attempt given its correlation with lower public perception as well as confidence of key stakeholders toward the company such as investor, regulator, and customers.

As one of the goals related to company establishment according to Theory of the Firm, larger market coverage is often associated with bigger size of company. Companies with such substantial size are also known for having high value as reflected in their rising stock prices. This condition is generally appealing for investors and in order to materialize it, companies need to develop not just the ability to immediately respond market dynamics but also their financial and operational capacity by utilizing access to existing funding sources. The companies also need to strengthen their bargaining power by building strategic relationship with related key stakeholders namely customer, investors, and creditor in order to achieve the goal of expanding market coverage that will lead to increase in both its size and value simultaneously.

Zutter *et al*. (2018) points out that wrong decision regarding capital structure formula will cause business risk in which the earned profit is unable to cover operational cost amount, in this case the addition of interest expense caused by massive usage of debt. In short, according to Theory of the Firm, the composition of capital structure made reflects level of financial risk that must be borne by company. However, this theory also views capital structure as an effective tool for mitigating related risks and maximizing the wealth of shareholders.

Based on above explanations, it can be concluded that the correlation between Theory of the Firm and profitability as moderating variable on this research lies in the idea that profitability can influence strategic decisions made by company to achieve its ultimate goal of value maximization namely public information disclosure representing the transparency aspect, resources allocation, and related risk management.

➢ *Specific Theories*

- *Company Value*

Adams (2017) defines company value as the present value of expected cash flows discounted back at a rate reflecting both riskiness of projects taken and used financing combination to finance them. There are two conditions regarding the company value creation according to Hawawini & Viallet (2019). First, company value is created if the return on invested capital amount exceeds its weighted average cost (WACC). Otherwise, the company value is not created if the WACC amount surpasses its return on invested capital.

The company value is often reflected by its stock price. In this research, such value is calculated through Tobin's Q or simply known as Q Ratio. The usage of this ratio is based on its holistic approach by dividing overall amount of market capitalization and debt owed by company with total assets owned. A higher value of Tobin's Q is generally perceived by market as something positive despite potential overvaluation. It means that the company is able to perform very well in the market as reflected by its increasing stock price.

- *Sustainability Report Disclosure*

Financial Regulatory Commission *et al*. (2022) defines Sustainability Report Disclosure as the reporting practice committed by organization regarding significant economic, environmental, and/or social impacts of its business operations. The institution responsible for establishing a universal standard for sustainability report disclosure practice is Global Reporting Initiative (GRI). This research uses GRI Standards 2021 to measure the value of Sustainability Report Disclosure variable. Such standard enables early implementation and more disclosed items up to 117 (n/117). If a company discloses more items as required by such standard in its regularly published sustainability report, it will become the indication for improvement of transparency aspect namely acknowledgement regarding impacts related to Environmental, Social, and Governance (ESG) caused by its operational activities done on a regular basis aside from better stakeholders engagement eventually leading to improved reputation as well as its value in the future.

- *Company Characteristic*

Company characteristic variable in this research is proxied by its size. Akrout *et al*. (2019) defines the size of a company as something that affects availability of resources to collect and process information in the market aside from playing significant role in determining organizational culture, market targets, and aggressive decision-making steps taken. This research will use the natural logarithm of total assets formula to calculate the value of company characteristic variable proxied by size. Such use is justified because in Indonesia there is a specific regulation which determines the size of a company solely by seeing its overall number of total assets on published financial report namely POJK No. 53/POJK.04/2017. According to that regulation, small companies are said to have total assets less than 50

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billion IDR, mid companies are known for having total assets whose amount is between 50-250 billion IDR, and a company is considered to have large size if its total asset exceeds 250 billion IDR.

- *Capital Structure*

Singh & Gupta (2022) defines capital structure as proportion of the amount forming the company capitalization. According to Mishkin & Eakins (2018), there are three reasons why capital structure is important for banking industry. First, the right composition of capital structure can avoid operational failure namely inability to meet obligations. Second, the amount of capital and its composition can affect the total return on investment of the owner. Third, the minimum amount of capital is important because it is a requirement to meet the applicable official regulations considering that the banking industry is heavily regulated. The regulation of capital structure in Indonesia has been established through POJK No. 11/POJK.03/2016. It regulates the requirement to provide minimum capital for banks based on its risk profile aside from the addition of related buffer to mitigate risk namely the uncertainty experienced by global economy caused by Covid-19 pandemic happened from year 2020 to 2022.

The capital structure variable value is calculated using Debt-to-Equity ratio (DER) in which it divides the amount of debt owed by company with its equity owned over a certain period. The higher number of DER indicates massive use of debt over actual equity made by company to finance its projects. If it is not handled well, then the company will experience financial distress. Such unmanaged distress will often lead to bankruptcy as its consequence.

- *Profitability*

Libby *et al*. (2023) defines profitability as the primary measure of overall success made by a company. There are ratios generally used to determine the profitability of a company such as Return on Assets (ROA), Net Profit Margin (NPM), and Return on Equity (ROE). This research however will use the latter because according to Ashar (2019) such ratio directly affects stock price as the reflection of company value. In addition, the value of Return on Equity (ROE) ratio is obtained by dividing net income with total equity. The higher number of ROE is generally perceived by investors as attractive for investment activity. However, the lower number of such ratio indicates that there is inefficiency in the operational activities done by company hence making it less attractive for investment.

B. Theoretical Framework

➢ *The Influence of Sustainability Report Disclosure on Company Value*

The disclosure of nonmonetary information on sustainability report published by company aside from monetary ones theoretically increases its value through the improvement of stakeholder trust. Such positive influence is supported by KPMG survey result in which the sustainability report disclosure practice strongly correlates with higher return of investment. This finding becomes more relevant as investors also start to put nonfinancial information into consideration when it comes to formulate the best investment decision alongside financial-related matters nowadays.

Laine *et al*. (2022) explains such tendency furthermore in which ESG consideration becomes essential part of the investment process nowadays as indicated by investment funds and asset management houses. It argues that such consideration should not be ignored by investors if they wish to maintain their good portfolios.

The related hypothesis development is in line with the concept of Stakeholders Theory. Such theory is said to be consistent with value maximization idea. Specifically, according to that theory entities seeking to serve more interests of a broader range of stakeholders will eventually create more values over time. Companies often practice Sustainability report disclosure as a means to achieve such goal namely the increase on its value through serving nonmonetary information aside from monetary ones for various range of stakeholders with different interests.

➢ *The Influence of Company Characteristic on Its Value*

When a company is currently experiencing growth, its value also increases as reflected by better stock price performance in the market. Such notion confirms the theoretical correlation between company characteristic, as proxied by size, and its value. Specifically, the related theory said that company value is determined by three different characteristics namely size, cash receipt period, and involved risk. Damodaran (2018) furthermore explains such theory in which as the company grows, its cash flows relative to value and risk exposure follow fairly predictable pattern.

Such related hypothesis development is in line with the concept of Theory of the Firm. The theory states that if a company is managed with purpose of maximizing value, not only its value will rise consequentially but it can also create job opportunities as more workers are required to work there.

➢ *The Influence of Capital Structure on Company Value*

Köseoğlu (2019) said that capital structure decisions made by management surely affect company value. The statement above does not only generally confirm the presence of correlation between these two variables namely capital structure and company value but it also has practical implication in which management needs to formulate the capital structure-related policy that optimally improves company value. Such implication is relevant with the agency theory concept used to develop this hypothesis. Agency theory points out the importance of management representing the agent role to synergically work with company owners as principal for the sake of reaching common goal that is value maximization.

Specifically, effective composition of capital structure can lower the cost of capital resulting in higher NPV and more acceptable projects as well as increase company value. When a company value decreases, the capital structure will not function optimally. The company experiencing such decrease will be unable to obtain additional fund to finance

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its operational activity. Such bad condition will affect the ability of company to maintain its business longevity in the future.

- *The Influence of Sustainability Report Disclosure, Moderated by Profitability, on Company Value*

Agency theory is not only used to explain the role of profitability in this case but also develop relationship between involved variables namely sustainability report disclosure and company value. The theory states that activities related to ESG engagement namely sustainability report disclosure will create more company values by increasing its expected cash flows through the mitigation of compliance risk. By disclosing nonfinancial information on sustainability report, companies can dampen the information asymmetry potential between stakeholders so that related agency costs will significantly reduce as well. In addition, the expected cash flow amount can also be improved by increasing sales volume and reducing production costs which can be done through implementing sustainability principle. Such implementation allows the exploration of potential new sources of revenue and operational cost efficiency namely the use of alternative energy such as solar power to reduce the traditional electricity dependency as well as its related costs. The new source of revenue explored through sustainability practice implementation will help company to boost its financial performance as indicated by the increase in profitability amount.

According to Haski-Leventhal (2018), by disclosing social, environmental, and governance (ESG-related) information, enterprises often find that they can better identify and manage issues influencing their business success. Profitability plays such major role in determining not just quantity but quality aspect of sustainability report disclosure as well. The implementation of sustainability principle done by the company allows potential new sources of revenue to be discovered, eventually leading to increase on its profitability. Such rise is in line with improving financial capacity of the company. When it comes to sustainability report disclosure, very profitable companies could use their increasing financial capacity to boost its related quality namely by making more comprehensive disclosure and even hire institution with relevant capability to do external verification of their published content as part of the assurance process. Otherwise, companies with low level of profitability deems the sustainability report disclosure as part of the cost-center bringing no financial benefit so it ends up practically as a matter of formality, in other words, it is only done to show the conformity with related regulations. Consequentially, such practice does not give significant contribution to value maximization attempt. From the explanations above, it can be concluded that profitability can moderate the sustainability report disclosure influence on company value by determining both quality and quantity aspect of that practice.

- *The Influence of Company Characteristic, Moderated by Profitability, on Its Value*

The existing ability of profitability to moderate influence of company characteristic on its value can be explained through Theory of the Firm. According to Daft (2021), the implication of such theory is greater size providing more power in the marketplace and thus increases revenues. Effective resource allocation is therefore essential to increase the company size and profitability takes important role to determine the success of such process.

Arnold & Lewis (2019) states that there are two types of steps taken by managers to increase the size of their company, namely through increasing sales volume and merging with other business units. The former can be done by utilizing asset optimally, in other words, more effectively and efficiently as part of resource allocation process. Such increase in sales volume correlates with the acceleration of cash receipts generally that will be used as required capital to increase company size and its value as reflected by stock price in the market. This is relevant with related theory in which company value can be improved by manager through increasing the size of expected cash flows, speeding up the cash receipt process from customers, and mitigating risks by being selective when it comes to taking new projects, in other words, avoiding to choose ones with high uncertainty.

- *The Influence of Capital Structure, Moderated by Profitability, on Company Value*

Theoretically, the most ideal form of capital structure is one that optimizes the increase of company value. Meanwhile, according to Brigham & Houston (2019) the capital structure can be affected by two factors, namely intentional and market-based action. The market-based action is related with the ability of profitability to significantly change the book value of equity. Referring to the contents of financial report, the amount of company capital is not only determined through issuance of new shares but also amount of retained earnings. Profitability plays an essential role to determine the retained earnings fluctuation. Specifically, if the anager decides not to share some parts of the profitability earned by company to stockholders in the form of dividend, it will later be used to boost the retained earnings. Such retained earning will be used by the management of a company as source of internal funding.

According to Agency Theory used as basis to develop related hypothesis, agency problem could rise from financing decision in which managers try to avoid using large amounts of debt whilst such use is highly recommended by shareholders as company owners in order to increase value. This will also cause agency costs to rise whose amount is immeasurable but its negative influence over market performance and stock price of such company can be directly felt as explained by Titman *et al.* (2021), "Underperformed firms will see their stock prices fall and might have their management taken over."

In addition, the value of Capital Structure variable is determined through Debt-to-Equity (DER) ratio. The justification of such use is based on previous research result from Rajan and Zingales in Brealey *et al.* (2020) where companies with high level of profitability tend to have lower ratio debt because they rely more on internal financing such as retained earnings than debt. The common characteristic of

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debt is having additional interest expenses that need to be paid alongside principal amount regularly. If such debt cannot be managed well, it will decrease overall financial performance which eventually lead to lower company value.

C. Research Framework and Hypotheses Development

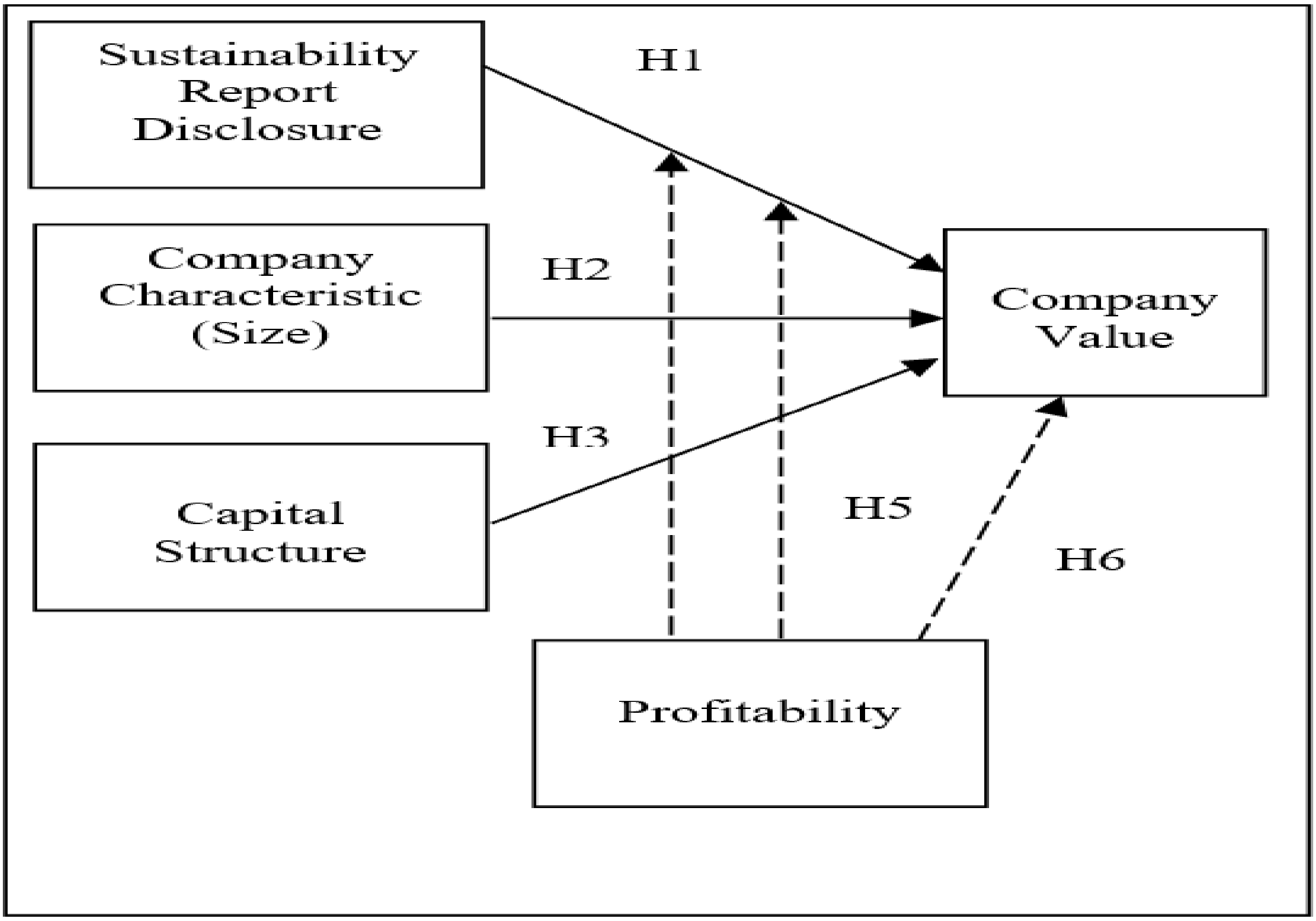

Fig 1 Research Framework

- H_1 = Sustainability Report Disclosure positively affects Company Value
- H_2 = Company Characteristic, proxied by size, positively affects its value
- H_3 = Capital Structure positively affects company value
- H_4 = Profitability is able to moderate the influence of sustainability report disclosure on company value
- H_5 = Profitability is able to moderate the influence of company characteristic on its value
- H_6 = Profitability is able to moderate the influence of capital structure on company value

III. RESEARCH METHODOLOGY

This is the kind of quantitative explanatory research based on the positivism philosophy to examine populations or samples. It also involves numbers, in other words, numerical approach to help explain the occurrence of a phenomenon. The research begins by observing a certain phenomenon, identifying related problems then formulate it into questions, choosing relevant theories, generating some hypotheses based on theoretical framework, writing down several aspects of the research design, collecting data, analyzing and finally interpreting the results. In addition, the form of relationship in this research is causal, namely cause and effect.

A. Operationalization and Measurement of Variables

There are three types of variables used in this research, namely independent, dependent, and moderating. The independent variables consist of Sustainability Report Disclosure, Company Characteristic as proxied by its size, and Capital Structure. Meanwhile, Company Value acts as dependent variable and Profitability is the moderating one. This section will provide detailed explanation of each variable and methods of measurement used to determine their respective values:

- *Company Value*

Irnawati (2021) defines company value as the investor perception regarding the level of company success. This research uses Tobin's Q to determine the related value whose formula is as follows:

$$\text{T's Q} = \frac{TMV + TL}{TA}$$

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Where TMV is Total Market Value obtained from multiplying stock price with number of shares available, TL represents the total liability owed by company, and TA stands for overall total assets. Indrarini (2019) states that Tobin's Q has the most holistic approach to determine company value because it considers the potential of share price development, the management ability to manage the assets owned by company, and also takes investment growth potential into account.

➢ *Sustainability Report Disclosure*

Schroeder *et al.* (2020) said that sustainability report disclosure can help organizations to measure, understand, and communicate their economic, environmental, social, and governance related performance then set goals as well as manage change more efficiently. This research uses GRI *Standards* 2021 to measure the value of sustainability report disclosure variable. Such new reporting standard enables early implementation and more items to be disclosed up to 117, therefore the related formula is as follows:

$$\mathbf{SRD = n/117}$$

Where n represents actual number of items disclosed according to GRI 2021 standards.

- *Company Characteristic (Size)*

Characteristic is defined as something that sets company apart from its competitors on similar industry. Characteristic of a company comes in many different types namely age, ownership structure, managerial experience, legal form, and size. This research is going to use company size as proxy for related variable. The value is then determined with formula below:

$$\mathbf{CC = Ln\ (Total\ Assets)}$$

This formula is the natural logarithm of total assets used to determine value of company characteristic as proxied by its size.

- *Capital Structure*

Capital Structure represents the combination of debt and stocks used to finance the assets owned by company or projects taken. The value of Capital Structure variable is determined through Debt-to-Equity (DER) ratio whose formula is as follows:

$$\mathbf{DER} = \frac{\textit{Total Debt (Short and Long Term Liabilities)}}{\textit{Total Equity}}$$

- *Profitability*

Profitability is related to the ability of a company in generating future earnings that is determined by assets utilization and result from operational activities. As moderating variable, profitability value is calculated using Return on Equity (ROE) ratio. Spiceland *et al*. (2022) said that ROE measures earned income for each dollar in the equity of stockholders. Below is the formula of Return on Equity ratio:

$$\mathbf{ROE} = \frac{\textbf{Net Income}}{\textbf{Total Equity}}$$

B. Research Population and Sample Determination

Given the research object, namely banking industry, there are 47 bank companies registered at Indonesia Stock Exchange (IDX) from the year 2020 to 2022 based on data obtained that will be used as population. As for the sample determination process is explained below:

Table 1 Sample Determination

Total Overall Population (Banks registered at IDX from the year 2020 to 2022)	47
Reduced by: Companies with "Papan Pengembangan" and "Dalam Pengawasan" status (Criteria #1)	(12)
Reduced by: Companies which do not consistently publish Sustainability Report during research period (2020-2022, Criteria #2)	(2)
Reduced by: Companies whose sustainability report disclosure do not follow GRI Standards (Criteria #3)	(13)
Total Sample	**20**

Based on previous criteria, there are 20 sampled companies that will be used for this research. Given the period used in this research, namely Covid-19 pandemic from the year 2020 to 2022 (3 years), it results in 60 observation items.

A. Data Collection Techniques

Data collection techniques in this study include field research to obtain data in the form of financial reports and Sustainability Reports of banking companies from the official website of sampled company as well as library research in the form of reviewing relevant literature to the topic. The type of data used is secondary data obtained through third party intermediaries such as websites.

B. Data Analysis Techniques

The data analysis techniques involve calculation, classification, and tabulation as well as interpretation of the hypothesis test result in order to answer problem formulation. This research uses EViews v13 because the type of data used is panel combining Cross Section and Time Series aspect. In addition, cross section is the kind of data collected at a point in time across multiple subjects namely financial data of 50 banks in 2020. Meanwhile, Time Series is defined as the kind of data obtained over time from a single subject such as Net Income of Bank ABC from the year 2020 to 2022. Besides that, EViews has more comprehensive feature related to data processing namely the various options of research regression models such as Fixed Effect Model (FEM), Common Effect Model (CEM), and

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Random Effect Model (REM) determined through Chow, Hausman, as well as Lagrange Multiplier if needed.

This research employs various techniques of data analysis, namely Descriptive Statistical Analysis, Classic Assumption Test, Multiple Linear Regression Analysis, Hypothesis Test both simultaneously and partially, Moderated Regression Analysis as well as Coefficient Determination. Descriptive statistical analysis is a method for analyzing data by describing the previously collected data but not for fulfilling generalization purpose. Some types of descriptive statistical analysis generally used are minimum and maximum values, mean (average value), and standard deviation.

The classical assumption test is conducted to ensure that used regression model is free from bias so that it meets the BLUE (Best Linear Unbiased Estimator) criteria. This test consists of normality, multicollinearity, heteroscedasticity, and autocorrelation test.

Multiple linear regression analysis is a statistical technique used to find a regression equation predicting value of a dependent variable based on the values of independent variables. This analysis also aims to find potential errors and analyze the relationship between dependent variable and two or more independent variables, either simultaneously or partially.

Additionally, Moderated Regression Analysis (MRA) according to Ghozali (2018) is the kind of data analysis technique done to determine the ability of moderating variable in either strengthening or weakening relationship between independent and dependent variables. Sihombing (2022) explains the types of potential moderating variable roles alongside its criteria namely pure moderator, quasi moderation, homologizer, and predictor. Pure moderator happens when the moderating variable significance value is insignificant while the Prob. or significance value of interaction variable appears to be significant, in other words, less than 0.05. Meanwhile, quasi-moderation happens if both significance value of the moderating variable and its interaction appear to be significant or < 0.05. Otherwise, homologizer is the kind of situation if both significance value of the moderating variable and its interaction appear to be insignificant or > 0.05. Last but not least, predictor or non-moderating variable is the situation where the significance value of a single moderating variable used appears to be significant while the interaction variable value is insignificant (Prob. > 0.05). This research however develops two different regression models; one is without moderation whilst the other is developed with moderating effect. Here is the detailed breakdown of each developed regression model:

- *Model 1 (Without Moderation):*

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon}$$

- *Model 2 (With Moderation):*

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta X4 + \beta 5X1\_X4 + \beta 6X2\_X4 + \beta 7X3\_X4 + \varepsilon,}$$

Where α represents constant value of such model, β1 is the regression coefficient of Sustainability Report Disclosure variable (X1), β2 is the regression coefficient for Company Characteristics variable as proxied by its size (X2), β3 is the regression coefficient for Capital Structure variable (X3), and β4 is the regression coefficient for Profitability as Moderating Variable (X4). Meanwhile, β5 coefficient value describes the interaction between Sustainability Report Disclosure variable and Profitability (X1_X4), β6 coefficient value describes the interaction that occurs between Company Characteristics (Size) and Profitability (X2_X4), and β7 as a coefficient reflecting the relationship between Capital Structure and Profitability (X3_X4). In addition, the ε symbol represents Error Term.

The hypothesis test consists of T-Test and F-Test. The T-Test is used to determine the existence of independent variable influence partially toward dependent variable. If t count < t table or -t count > -t table then H0 as the main hypothesis is accepted and Ha as the alternative hypothesis is rejected. Conversely, if t count > t table or -t count < -t table then H0 is rejected and Ha is accepted. As for the comparison of significance value with its actual level namely 0.05, there are also two different conditions. First, if the Significance Value of T-test > Actual Level of 0.05 then H0 is accepted and Ha is rejected in which the independent variable does not have a significant effect on dependent variable. Conversely, if the Significance Value < 0.05 then H0 is rejected and Ha is accepted where there is a significant influence of the independent variable towards dependent variable. In addition, the F-Test is conducted to determine the existence of all independent variables influence on dependent variable simultaneously. The related criteria remain unchanged however, if Prob. or significance value exceeds 0.05 then the communal influence is insignificant. Otherwise, if the Prob. or significance value is less than actual level namely standard of 5% then it can be concluded that all independent variables simultaneously have influence toward dependent variable.

The coefficient of determination is used to measure the ability of developed model in explaining variation of dependent variable by referring to R-Squared (R2) value. If the R2 value equals 0 then the independent variable does not have the ability to explain variation of the dependent variable. Conversely, if the R2 value is 1 then it indicates that the independent variable is able to explain variation of such dependent variable.

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IV. RESEARCH RESULT AND DISCUSSION

A. Descriptive Statistic Analysis

Table 2 Descriptive Statistic Result

Date: 05/04/25 Time: 13:31
Sample: 2020 2022

	X1	X2	X3	Y	X4
Mean	0.491311	32.81693	5.749000	1.053433	0.092492
Median	0.478632	32.90375	5.620000	0.960000	0.102500
Maximum	0.786325	35.22819	16.08000	2.480000	0.240000
Minimum	0.264957	30.26282	0.350000	0.280000	-0.950000
Std. Dev.	0.128070	1.399513	3.034398	0.317801	0.155081
Skewness	0.218784	-0.178421	1.288300	1.840806	-5.117338
Kurtosis	2.004951	2.412533	5.782215	9.803821	35.31805
Jarque-Bera	2.953968	1.181134	35.94897	149.6156	2873.013
Probability	0.228325	0.554013	0.000000	0.000000	0.000000
Sum	29.47863	1969.016	344.9400	63.20600	5.549500
Sum Sq. Dev.	0.967710	115.5596	543.2467	5.958863	1.418964
Observations	60	60	60	60	60

Source: Processed from EViews v13

The X1 variable representing Sustainability Report Disclosure has maximum value of 0.786 and minimum value of 0.26. Meanwhile, the mean value of X1 is 0.49 bigger than its standard deviation amount (0.128) indicating a less diverse data spread on this variable.

The X2 variable representing Company Characteristic as proxied by its size has maximum value of 35.228 and minimum value of 30.26. Meanwhile, the mean value of such variable is 32.8; bigger than its standard deviation amount namely 1.3995. It indicates that the data are spread evenly, in other words, this variable has relatively limited range of data.

The X3 variable representing Capital Structure has maximum value of 16.08 and minimum value of 0.35. Meanwhile, the mean value of X3 is 5.749 bigger than its standard deviation amount (3.034) indicating that the data spread homogenously.

The Y variable representing Company Value has maximum value of 2.48 and minimum value of 0.28. Meanwhile, the average value of such variable is 1.05, slightly bigger than its standard deviation amount that is 0.3178 indicating that the data spread is less varied.

The X4 variable representing Profitability has maximum value of 0.24 and minimum of -0.95. Such negative number indicates that there is a part of sampled company experiencing loss in running its business. Meanwhile, the average or mean value of such variable is 0.09 slightly less than its standard deviation amount namely 0.155. It becomes major indication that the data are spread heterogeneously in variable X4. Specifically, the collected data are more variative compared to previous variables in terms of characteristic.

B. Regression Model Determination Process

Before conducting classic assumption and hypothesis test in EViews software, the most suitable regression model must be determined first through a series of tests namely Chow, Hausmann, and Lagrange-Multiplier. For important consideration, the determination process will exclude interaction variables whose values are obtained from multiplying independent variable with the moderator.

The Chow test is conducted to determine which regression model is best used, Fixed Effect Model (FEM) or Common Effect Model (CEM). FEM is chosen if p-value (Prob.) is less than 0.05 while CEM is used otherwise namely if Prob. value > 5%. Below is the result of Chow test conducted using EViews v13:

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Table 3 Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.032251	(19,36)	0.0000
Cross-section Chi-square	92.999943	19	0.0000

Source: EViews v13

Given the Prob. value of 0.000 that is below 5%, the chosen regression model according to Chow Test result is Fixed Effect Model.

Meanwhile, the Hausman test is conducted to determine which best regression model to use namely Fixed Effect Model or Random Effect Model (REM). REM is chosen if the Prob. value exceeds 0.05 while FEM should be used when p-value < 5%. Below is the result of Hausman test generated using EViews 13:

Table 4 Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.360766	4	0.0348

Source: EViews 13

Given the Prob. value of 0.0348 which is obviously below 0.05, therefore Fixed Effect Model should be used according to Hausman Test result above.

In addition, Lagrange-Multiplier is the test conducted to determine which best regression model to use namely Common Effect Model (CEM) or Random Effect Model (REM). If the p-value is less than 0.05 then REM should be used for research purpose. Given previous test results stating that Fixed Effect Model should be used consistently, therefore this kind of test is unnecessary to be done.

C. Classic Assumption Test

Given the selected regression model based on previous test result that is Fixed Effect (FEM), therefore classical assumption tests such as normality, heteroscedasticity, autocorrelation, and multicollinearity are not mandatory. This is because such model prioritizes coefficient consistency over residual normality and uses stronger standard error (Robust Standard Error) so that it can handle data heterogeneity problems more effective.

D. Hypothesis Test and Coefficient Determination

The hypothesis test will be done twice on this research, with and without moderating effect using previously selected Fixed Effect regression model. Therefore, the hypothesis test result conducted is as follows:

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Table 5 Hypothesis Test Result (T-Test and F-Test) without Moderation

Dependent Variable: Y
Method: Panel Least Squares
Date: 05/04/25 Time: 15:18
Sample: 2020 2022
Periods included: 3
Cross-sections included: 20
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.57821	10.84235	1.529024	0.1350
X1	-0.048425	0.340322	-0.142291	0.8876
X2	-0.455250	0.339600	-1.340545	0.1885
X3	-0.093052	0.055356	-1.680968	0.1014
X4	-0.282525	0.260625	-1.084028	0.2856

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.825647	Mean dependent var	1.053433
Adjusted R-squared	0.714255	S.D. dependent var	0.317801
S.E. of regression	0.169881	Akaike info criterion	-0.418262
Sum squared resid	1.038944	Schwarz criterion	0.419475
Log likelihood	36.54787	Hannan-Quinn criter.	-0.090577
F-statistic	7.412083	Durbin-Watson stat	1.788210
Prob(F-statistic)	0.000000		

The Prob. value of X1 variable is 0.8876, bigger than 0.05 so that the **first hypothesis (H_1) must be rejected** namely Sustainability Report Disclosure positively affects company value. Meanwhile, the Prob. value of X2 is 0.1885 exceeding 5% therefore related **hypothesis (H_2) must also be rejected** namely Company Characteristic as proxied by size positively affects its value. As for Prob. value of X3 variable is 0.10, also bigger than 0.05 hence **the hypothesis developed stating that capital structure has positive effect on company value (H_3) must be rejected** as well. However, the Prob. (F-Statistic) value is 0.0000 indicating that all independent variables used on this research are simultaneously able to influence company value as dependent variable because < 5%.

The R-Squared value of this early regression model is 0.8256 meaning that all independent variables used in this study are able to explain the variability of the company value by 82.56% while the remaining 17.44% is explained by other factors or unused variables in this model. In addition, the Durbin-Watson stat value is 1.78 indicating that no autocorrelation issue on this regression model used.

Meanwhile, the result of hypothesis test using second regression model in which interaction variables are also involved is as follows:

Table 6 Hypothesis Test Result (T-Test and F-Test) with Moderation Effect

Dependent Variable: Y
Method: Panel Least Squares
Date: 05/04/25 Time: 15:42
Sample: 2020 2022
Periods included: 3
Cross-sections included: 20
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	38.46487	10.14487	3.791559	0.0006
X1	-0.967919	0.425205	-2.276357	0.0294
X2	-1.141407	0.318285	-3.586122	0.0011
X3	0.054811	0.055617	0.985516	0.3315
X4	-11.58564	8.760764	-1.322446	0.1951
X1_X4	10.85570	4.126494	2.630732	0.0128
X2_X4	0.342038	0.308043	1.110358	0.2749
X3_X4	-0.583739	0.272756	-2.140151	0.0398

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.894218	Mean dependent var	1.053433
Adjusted R-squared	0.810874	S.D. dependent var	0.317801
S.E. of regression	0.138207	Akaike info criterion	-0.817959
Sum squared resid	0.630343	Schwarz criterion	0.124496
Log likelihood	51.53878	Hannan-Quinn criter.	-0.449313
F-statistic	10.72928	Durbin-Watson stat	2.041151
Prob(F-statistic)	0.000000		

The X1_X4 variable, representing the interaction between profitability (X4) as moderating variable and Sustainability Report Disclosure (X1), has a Prob. value of 0.01. It is smaller than 0.05 so the **fourth hypothesis developed on this research (H_4) must be accepted** namely profitability is able to moderate sustainability report disclosure influence on company value. Meanwhile, the X2_X4 variable, representing the interaction between profitability (X4) as moderating variable and Company Characteristic (X2), has a Prob. value of 0.27. It is bigger than 0.05 so the **fifth hypothesis developed on this research (H_5) must be rejected** namely profitability is able to moderate company characteristic influence as proxied by its size on company value. The X3_X4 variable, representing the interaction between profitability (X4) as moderating variable and Capital Structure (X3), has a Prob. value of 0.0398. It is smaller than 0.05 so the **sixth and final hypothesis developed on this research (H_6) must be accepted** namely profitability is able to moderate sustainability report disclosure influence on company value. In the case of H_6, even though it is accepted due to its Prob. value smaller than 0.05, but the related coefficient amount is negatively written, so that the profitability here has the role of weakening relationship between involved variables.

The Prob. value for F-Test above is 0.0000 indicating that all independent variables are able to influence dependent variable altogether. Meanwhile, the R-Squared value is 0.894 meaning that all independent variables are able to explain the company value variability by 89.4% while the remaining 10.6% is explained by unconsidered factors outside this model. In addition, the Durbin-Watson stat is 2.04 indicating that there are no autocorrelation issues on the regression model.

E. Result Discussion

- *The Influence of Sustainability Report Disclosure on Company Value*

The coefficient of X1 variable is -0.048 meaning that every single increase in Sustainability Report Disclosure unit will decrease company value otherwise by 4.8% assuming other variables are constant. In addition, the coefficient of Y variable as reflected by its C value is 16.578. It means that by assuming that all other variables remain constant or having zero value, the expected value of Company Value variable is 16.578 in the first, no moderation effect model developed.

However, the Prob. value of X1 is 0.8876, bigger than common standard namely 5% (0.05) so that the related and first hypothesis (H_1) stating that sustainability report disclosure has a positive influence on company value is therefore **rejected**. It means that sustainability report disclosure otherwise does not affect company value significantly. Such finding also contradicts related logic theory namely sustainability report disclosure should increase company value by creating competitive advantage through the increase of transparency and accountability aspect that will be appreciated by stakeholders furthermore.

The result does not support Stakeholders Theory as well in which it supports the idea of value maximization as well as acknowledges the effort to maximize sustainability performance and company value in the long-term as criteria for balancing the various needs of stakeholders. Shortly, Stakeholders Theory points out that company is responsible to fulfill the expectation of related stakeholders, not just shareholders but also employees, banks, media, and government. In Indonesia, the sustainability report disclosure practice especially for companies in financial

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service industry namely banking has become something mandatory. The local government serving as regulator in this case has established a set of regulations related to sustainability report disclosure practice namely UU No. 40/2007 (Company Law) regarding the obligation to carry out Corporate Social Responsibility (CSR) activity, POJK No. 51/2017 about responsibility to implement sustainability finance principle for issuers, public companies, and financial industry which then is followed up by the issuance of SEOJK No. 16/2021 regulating the disclosure format. These regulations also act as strong legal basis for the mandatory nature of sustainability report disclosure practice, especially for banking companies whose nature of business operation is Highly Regulated. The Highly Regulated nature means that government has strong intervention over banking company activities given its role as regulator.

Despite the fact that the business operation of banking industry does not directly interact with natural resources unlike mining, but the obligation related to sustainability report disclosure as written on those regulations has become universal for banking companies, in other words, something that applies to all with no exception. Therefore, in terms of its attempt to fulfill such obligation, the sustainability report disclosure practice done by banking companies tends to be a matter of formality. Specifically, such disclosure practice is just done to meet regulatory demand, not intended to trigger any value-adding innovations so that it contributes nothing to the value maximization attempt of banking companies. This argument is also supported by the descriptive statistics analysis result of X1 variable representing Sustainability Report Disclosure in which its mean value is 49.13%. It means that banks are not aware enough of the potential brought by sustainability report disclosure towards their value maximization attempt because the related practice is only done for formality. The result of this research is in line with [18], [50], and [33].

- *The Influence of Company Characteristic on Its Value*

The coefficient of X2 variable is -0.455 meaning that each increase in Company Characteristic unit will decrease company value by 45.5% assuming other variables are constant. Meanwhile, the Prob. value of X2 is 0.1885, bigger than 0.05 so that the related hypothesis (H_2) stating that company characteristic, as proxied by its size, positively affects company value is **rejected**. Such finding means that company characteristic does not affect its value as proxied by its size. It also contradicts with related logic theory in which the size of a company, as reflected by total assets, is directly proportional to its value.

However, this result is in line with the phenomena raised on this study namely the stock price fluctuation of some Indonesian digital banking companies. Those companies are known for having fewer total assets than the conventional ones but their ability to combine regular banking practice with existing technology development is highly appreciated by investors. Such practice is perceived as “The Future of Banking Practice” with promising prospect specifically during Covid-19 pandemic period from the year 2020 to 2022. Such phenomenon becomes ultimate evidence that investors are no longer considering the total assets as basis for their investment decision-making because they are more focusing on current performance and future prospect of a company.

In addition, this finding does not support classic Theory of the Firm as well stating that companies managed with the purpose of value maximization and currently experiencing growth will need to expand their assets, namely by adding more intellectual assets such as employees and physical ones like building because the digital banks heavily invest on technological advancement enabling banking practice to be done anytime anywhere without having to visit nearby office. It is in line however with [55].

- *The Influence of Capital Structure on Company Value*

The coefficient of X3 variable is -0.09 meaning that each increase in Capital Structure unit will decrease company value by 9% assuming other variables are constant. Meanwhile, the Prob. value of X3 is 0.1 bigger than 0.05 so that related hypothesis (H_3) stating that capital structure positively affects company value is **rejected**. It means that capital structure in fact does not affect company value. The finding also cannot prove related logic theory namely the most effective capital structure, representing a combination of debt and stocks used to finance assets owned by company, is one maximizing increase in company value significantly.

The national banking industry has set regulation regarding capital structure formulation that is mandatory or must be complied with such as the obligation to provide minimum capital alongside additional Countercyclical Buffers to overcome economic uncertainty namely due to the Covid-19 pandemic throughout 2020 to 2022. The implication of such applied regulation is the capital structure formulation made by banking companies in Indonesia tends to reflect compliance aspect more than managerial initiatives so that it limits its influence on company value. This finding is in contrast to agency theory where management can freely implement policies that have the potential to benefit owners, such as formulating a certain Capital Structure composition to optimize the increase in company value.

In addition, considering the descriptive statistics analysis result of X3 variable measured through Debt-to-Equity ratio whose standard deviation amount is relatively big for such small sample size, it happens because banks have more liabilities component than actual equity. The liability part of banking companies mostly consists of Third-Party Fund (TPF) collected from their customers. Specifically, the general types of TPF are customer savings, current accounts and deposits but what sets it apart than any other liabilities is its ability to be withdrawn anytime by customers so it doesn't have a certain kind of due date. In banking practice, TPF is mostly used by banks to finance their daily operational activities if there are no withdrawals so that it will reduce the dependence over using conventional debt or long-term loans. This makes the Capital Structure measurement of banking industry

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companies using Debt-to-Equity ratio appears to be irrelevant. Such ratio, in other words, is unable to fully capture the Capital Structure influence on company value fluctuation. This finding is in line with previous research result namely from [20]

- *The Influence of Sustainability Report Disclosure Moderated by Profitability on Company Value*

The coefficient of X1_X4 variable is 10.8557 meaning that each increase in Sustainability Report Disclosure unit moderated by profitability will increase company value significantly by 10.8557 assuming other variables are constant. Meanwhile, the Prob. value of X1_X4 is 0.0128 smaller than 0.05 so that related hypothesis (H_4) stating that profitability can moderate the sustainability report disclosure influence is **accepted**. Given the positively recorded coefficient number, it can be concluded that profitability is able to strengthen relationship between involved variables. In addition, the X4 value representing profitability as moderating variable has a Prob. value of 0.1951 therefore it acts as pure moderator given the previous significance value of interacting variable which is less than 5%. This finding supports the agency theory logic in which activities related to ESG engagement namely sustainability report disclosure done as a means of mitigating compliance risk alongside information asymmetry potential between stakeholders will increase expected cash flows hence more company values are going to be created as well. In addition, the sustainability principle implementation as disclosed on related report can also open up opportunities to explore new sources of income and enable operational cost efficiencies at the same time leading to better financial performance. Such improvement will also cause the company value to rise because investors start appreciating companies that show the willingness to implement the sustainability business principle in their daily activities even though in Indonesia it becomes something mandatory. This notion is supported by the fact that investors nowadays also start putting nonmonetary information as disclosed in sustainability report into their consideration when they are about to make impactful investment decision.

As previously explained, profitability has major role in determining both quantity and quality aspects of sustainability report disclose practice. Given the accepted hypothesis result in which profitability strengthens the influence of sustainability report disclosure on company value, more profitable companies will use their excess in financial capability not just limited to conduct more impactful CSR-based activities but also enhance reporting quality through the use of external content verification service offered by institution with relevant capability as part of assurance practice. This research, in addition, also finds that there are some Indonesia banking companies using external verification service for their published sustainability report namely Bank Central Asia, Bank Negara Indonesia (BNI), and Bank Mandiri. Previous researches whose result similar to this finding are [15] and [36].The Influence of Company Characteristic Moderated by Profitability on Its Value

The coefficient of X2_X4 variable is 0.342 meaning that each increase in Company Characteristic unit moderated by profitability will increase company value by 34.2% assuming other variables are having zero value. Meanwhile, the Prob. value of X2_X4 is 0.2749 bigger than 0.05 so that the related hypothesis (H_5) stating that profitability can moderate the influence of company characteristic on its value is **rejected**. Otherwise, according to research result above profitability is unable to moderate the influence of company characteristic over its value. In addition, the X4 value representing profitability as moderating variable has a Prob. value of 0.1951 therefore it acts as homologizer or potential moderator.

As previously explained, profitability can be generated through asset utilization. It is a part of resource allocation conducted by company essential for its size expansion eventually leading to value maximization attempt as well. This logical-based theory supports the theoretical implication of Theory of the Firm namely greater size provides more power in the market and thus increases revenues but the result says otherwise.

This finding is also able to explain the main phenomenon discussed on this research, namely extreme fluctuation as experienced by some stock prices of Indonesian digital-based banks. Despite fewer total assets compared to the conventional ones, digital banks can still generate profit however because of their effective resource allocation. Such bank does not need physical, visible asset namely building to conduct its regular operational activity but rather invest on technology that enables banking practice to be done more flexible, anytime anywhere without having to visit nearby head or branch office.

Given that profitability reflects the financial performance of a company, those Indonesian digital banks reached their related peak during Covid-19 pandemic period. They benefitted from the fact that Covid-19 spread rapidly so as a part of risk mitigation, the mobilization of people had to be limited. Such period also enabled rapid technological advancement which would later be capitalized by those digital banks to create value-adding innovation namely flexible banking practice through mobile application development. Back then, many people subscribed to digital banking service due to limited mobility as part of the consequence caused by Covid-19 pandemic. It offered flexibility for users to conduct direct banking practice at desirable time and place hence perceived by investors as the kind of innovation that added value especially during that critical period. Such flexibility also became the selling point of those banks eventually contributed to the rise of their market performance. Aside from appreciation given by investors regarding innovative banking practice using technological approach, such improvement in market performance also contributed to the increase of related company value. However, the limited timeframe of this research namely three years from 2020 to 2022 makes the moderation effect less significant. Specifically, profitability in this case neither strengthens nor weakens the influence of

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company characteristic, proxied by size, on its value given such period.

In addition, given the very limited number of previous studies that discuss about profitability as moderating variable namely its ability to either weaken or strengthen the influence of company characteristic, proxied by size, on its value it however creates empirical implication that is less revealed dynamics found between involved variables. Not only such implication acts as another novelty aspect discovered and offered by this research, but it opens opportunities for the related dynamics to be further elaborated in upcoming research as well.

- *The Influence of Capital Structure Moderated by Profitability on Company Value*

The coefficient of X3_X4 variable is -0.58 meaning that each increase in Capital Structure unit moderated by profitability will otherwise decrease company value by 58% assuming other variables have zero value. Meanwhile, the Prob. value of X3_X4 is 0.0398 smaller than 5% so that the related hypothesis (H_6) stating that profitability can moderate the influence of capital structure on company value is **accepted** despite negative coefficient amount. It means that profitability is literally able to moderate the influence of capital structure on company value but in such a negative way namely weakens the relationship between involved variables. In addition, the X4 value representing profitability as moderating variable has a Prob. value of 0.1951. It means that, by also putting the significance value of interaction variable above into consideration, profitability as moderating variable serves as pure moderator.

This finding confirms agency theory logic stating that agency-related problem could occur from financing decision in which manager tries to avoid such massive use of debt to improve company value even though that action is highly recommended by shareholders. Debt is an essential part shaping the capital structure of a company, but failure in its management will cause related value to appear underperform. Such underperformed company will become soft target for hostile takeover due to management incompetency. Besides that, debt also has additional interest expense to be paid alongside its principle amount. If the company does not have enough financial capacity to handle that kind of expense, which can be improved by increasing profitability, then it may jeopardize its overall market performance. Investors will perceive such condition as the inability to manage related risks so that it negatively affect company value at the same time. They simply avoid investing at companies with such high risks especially during critical period like Covid-19 pandemic.

In the context of research object used, banking companies with low profitability often facing problems related to financial management and performance optimization. Managers therefore may focus on meeting more urgent operational needs namely the fulfillment of Third Party Funds availability and maintaining operational sustainability rather than paying attention to optimal capital structure management strategy that theoretically increases related value specifically during crucial times like Covid-19 pandemic. In addition, the finding of this research is similar to past studies namely [5] and [11].

V. RESEARCH CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

- *Conclusion*

This research aims to analyze the influence of sustainability report disclosure, company characteristic as proxied by its size, and capital structure on company value moderated by profitability especially in banking companies registered at Indonesia Stock Exchange (IDX) from the year 2020 to 2022. The results are as follows:

- Sustainability report disclosure does not affect company value.
- Company characteristic, proxied by size, does not affect company value.
- Capital structure does not affect company value.
- Profitability is able to moderate (strengthen) the influence of sustainability report disclosure on company value.
- Profitability is unable to moderate the influence of company characteristic (size) on its value.
- Profitability is able to moderate (weaken) the influence of capital structure on company value.

- *Limitations and Recommendations*

- The limitations of this research are relatively small sample size consisting of 20 companies only and limited period used namely three years of Covid-19. Based on previously explained point of research limitations above, future researchers who are about to conduct research with relatively similar topic should consider adding more companies as part of the sample and/or research period.
- For future researchers to also consider using another measurement option that might be more relevant for Capital Structure variable, such as Capital Adequacy Ratio.
- For investors to start putting nonmonetary information as published on the sustainability report of banking company namely into consideration alongside financial matters when such impactful investment decision is about to be made.
- For government acting as regulator in national banking industry to consider evaluating regulations related to sustainability report disclosure practice in terms of their relevancy with current reporting standard.
- For management of banking companies to not only increase the quantity of disclosed items in their regularly published sustainability report but also consider improving its quality through hiring external assurance service. Management should also consider changing its related communication strategy in order to make sustainability report disclosure practice does not appear as a matter of formality namely by explaining how the implementation of sustainability principle could contribute to financial performance improvement.
- For management of banking companies to not just improve operational efficiency but also conduct review

regarding the implementation of capital structure policy and its overall contribution to value maximization attempt on a regular basis.

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