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A Conceptual Paper: Corporate Value Strategic Performance Implications Banking and Bank Sustainability

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Abstract

Indonesia is a country with very rapid economic development, this can be seen from the increasing number of companies from year to year. In the current era of globalization, many financial institutions are growing and developing rapidly in the Indonesian economy.A high company value is the desire of company owners, because a high value shows that shareholder prosperity is also high. In the banking business, covering financial aspects alone cannot represent bank performance without evaluating the value of the impact of business activities on the environment and social as well as positive and negative performance. Apart from that, banking business units are also required to meet targets sustainability development goals(SDGs) which is the key to the sustainability of all sectors and fields in the world, so this indicates that the implementation of SDGs is very important in the eyes of the public. This research wants to test howsustainablebanks influence banking performance and company value. This research develops a causality model of the relationship between banking performance and sustainability as an independent variable, with company value as the dependent variable. In order to make the visibility of the impactof the two independent variables on company value more general and measurable, the model construction was developed by presenting company size and culture variables as control variables. The data analysis techniques used in this research are descriptive analysis and multiple linear regression analysis. Multiple linear regression analysis is an analysis to determine the effect of more than one independent variable on more than one dependent variable on the dependent variable.

Keywords: *Company Value, Banking Performance, Sustainable Bank*

Introduction

Indonesia is a country that is developing very rapidly. This can be seen from the increasing number of companies from year to year as an indicator of economic progress (Dowling & Yap, 2008). Competition between companies forces company managers to make important strategies and decisions in order to survive and achieve company goals. The banking industry is an industry that plays a very important role and is a very vital sector for a country. It can be said that the banking industry is the heart of a country (Isnurhadi; Sulastri; Saftiana, Y.; Jie, 2023; O'Connell, 2023).

The era of free markets implemented by the European Economic Community (AEC) will certainly open up wider flows of goods and services, therefore regional economic growth must be integrated with the global economy. In the current era of globalization, many financial institutions are growing and developing rapidly in the Indonesian economy. The role of banking in the development of the Indonesian economy is very important so that many investors are interested in investing in the banking sector and in making investments, of course investors need to look at the bank's health level. A high company value is the desire of company owners, because a high value shows that shareholder prosperity is also high. Therefore, effective financial management is very important for the continuity and growth of the company (Murni et al., 2018)

On the other hand, global pressure will encourage banks to be more active in paying attention to business sustainability from an economic, social and environmental perspective. Inthe banking business, reaching financial aspects alone cannot represent bank performance without evaluating the value of the impact of business activities on the environment and social as well as positive and negative performance, (Handajani et al., 2021) Top management must create sustainable banking policies and strategies by internalizing risks environment as a material for risk management. Apart from that, banking business units are also required to meet targets *sustainability development goals* (SDGs). In terms of its achievements, SDGs implementation in Indonesia is still below Malaysia (Bappenas, 2022). Meanwhile, SDGs are thekey to the sustainability of all sectors and fields in the world. This indicates that the implementation of SDGs is very important in the eyes of the public. The implementation of SDGs for a company can be seen from their implementation of *Sustainability Report.*

Factors that influence whether a bank is healthy or not include bank sustainability and banking performance (Kilic et al., 2022; Lee & Suh, 2022; Saygili et al., 2022). The development of the sustainable banking concept found that many economic and social indicators were reported in the sustainability report. Research conducted by (Handajani et al., 2021) states that banks use the concept of sustainable banking as an important strategy in line with their role in social responsibility and a sustainable environment. Studies on the implications of sustainable banking strategies for banking performance are still relatively limited. Financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly (Anggiani et al., 2020).

This research aims to test how sustainable banks influence banking performance and company value. Research (Putri et al., 2022) shows that banking performance has a positive effect on company value. Meanwhile, research from (Ayu Lestari & Hendra Titisari,2021) shows different results from research from (Putri et al., 2022), namely that there is a negative relationship between banking performance and company value. On the other hand, according to research (Yulianty & Nugrahanti, 2020), it is stated that sustainable banking has a positive effect on company value. In contrast to research from (Kusuma & Priantinah, 2018) that sustainable banks have no effect on company value.

One indicator to see how well a company manages its assets is its performance. If the company's assets are large, it shows that the size of the company is getting bigger. Large companies will be more easily recognized in society and will also increasepublic trust in the company. In this case, the researcher wants to show that the relationship between banking performance variables has a positive effect on company value because the company's main goal is to increase company value.

Relationship between *sustainable* banking, banking performance and company value willbe seen more clearly with the presence of controlling variables (*control variables*) such as size (Surya Abbas & Dillah, 2020); (Kolamban et al., 2020; Husna & Satria, 2019) and organizational culture (Wijayani et al., 2019; and Romadhona & Wahyuningtyas, 2019) that there is an organizational culture that is implemented in each banking sector, both within the state-ownedand private sectors. different, where these are existing beliefs, values, pattern systems created together for members to follow which can differentiate an organization from other organizations. According to Wijayani et al., (2019) organizational culture is the dominant valuesthat are disseminated and referred to as employee work philosophy.*Culture can be characterized by trust in subordinates, open communication, considerate and supportive leadership, group problem solving, worker autonomy, information sharing and high output goals* (Mondy and Noe, 1990).

The research currently being conducted aims to examine the impact of banking performance and banking sustainability on company value. This research develops a causality model of the relationship between banking performance and sustainability as an independent variable, with company value as the dependent variable. In order to make the visibility of theimpact of the two independent variables on company value more general and measurable, the model construction was developed by presenting company size and culture variables as controlling variables. Thus, this research has high urgency with contributions to research models built from previous research studies (see for example Bananuka et al., (2022); Haladu &Bin-Nashwan, (2022); J. et al., (2023).); Karaman et al., (2018); Prashar, (2023); and Zharfpeykan & Akroyd, (2023). The final aim of this research is strategic thinking about increasing the value of companies that go public on the Indonesian Stock Exchange.

Literature Review

Influence of Banking Performance and Company Value

Good company management will produce good performance. A company's ability to generate profits is called profitability. When a bank's ROA is high, the company value will increase. Profitability (ROA) is the result obtained from funds invested by shareholders through management activities and distribution of profits that are the rights of shareholders, namely the amount of funds returned on investment and how much is paid as dividends. Previous research shows differences in the influence of profitability and company value. According to research from (La Ode Sumail, 2021) that ROA has a positive and significant effect on company value. This is different from research conducted by (Santosa et al., 2020) which states that ROA has a negative effect on company value.

Capital adequacy is the company's ability to maintain adequate capital owned by the bank to support assets that contain or produce risk. Dendawijaya (2005: 121) argue that CAR is a ratio that shows the extent to which all bank assets containing risk (credit, investments, securities, claims on other banks) are financed from the bank's own capital funds, such as public funds, loans (debt), and others. In other words, the capital adequacy ratio is a bank performance ratio to measure the adequacy of capital owned by the bank to support assets that contain or produce risk, for example loans provided. With a high CAR, it means that the bank has the ability to overcome possible losses due to credit and trading in securities. The minimum CAR set by Banking for International Settlement (BIS) is 8%, meaning that if the CAR is less than 8%, it can be said that the bank's capital structure is unhealthy. Based on research from (Murni et al., 2018) it is stated that CAR has an effect on Company Value. In contrast to research conducted by Tyahya, et al (2020) that CAR has no influence on company value.

Liquidity is the company's ability to repay obligations to customers who have invested their funds with credit that has been given to their debtors. Liquid assets are assets that are traded in an active market so that they can be converted quickly into cash at the prevailing market price or without having to reduce the price of the asset too much (Brigham and Houston, 2014: 134). If a company has a high liquidity ratio, it will certainly attract the attention of investors, because it will be a signal to investors that the company is performing well and can increase share prices, which means the company's value will also increase. According to research by Frengky Sihombing, et al, liquidity has a significant positive effect on company value. In contrast to research conducted by (Husna & Satria, 2019) that liquidity has no effect on company value.

Credit risk is the company's ability to manage the problem loans it distributes. Company profile risk or Non-Performing Loans (NPL) is a measure of the health of a bank's assets. The higher the NPL means that the bank is unable to manage asset quality so that the condition of the bank's assets tends to be poor and this has an impact on the bank's performance. On the other hand, low NPLs are a reflection that the bank is able to manage asset quality so that the condition of the bank's assets displays a healthy face. NPL is synonymous with credit risk, which is the tendency for debtors to fail to pay their obligations or debtors to be unable to pay off their obligations (Fakhruddin & Purwanti, 2015). Non Performing Loan (NPL) Indicator namely: 0% - 2% (very healthy), 2% - 3.5% (healthy), 3.5% - 5% (fairly healthy), 5% - 8% (not healthy) and >8% (not Healthy). Research from (La Ode Sumail, 2021) shows that NPL has a significant negative influence on company value. On the other hand, it is different from research conducted by Laras Ayu (2012). Based on the theory and research results above, the following hypothesis can be formulated.

H1 = Banking performance has a significant positive effect on Company Value

The Effect of Sustainable Banking on Company Value

Sustainable banking is one of the financial institutions' efforts towards sustainability, which has direct and indirect implications for banking performance, especially company value. Several studies report that the implementation of sustainability issues in banking business practices will affect bank performance, both financially and financially. In skepticism about the impact of sustainable implementation on commercial banks, such as increased expenditure that disrupts normal bank activities, (Aryani et al., 2020) found strong evidence that green banking as a sustainable program has a positive impact on bank financial performance. In line with the results of previous research, (Josua Panatap Soehaditama, 2023) reported that implementing sustainable issues in the banking business will have an impact on bank performance, both financial performance and non- financial performance. Through the implementation of environmentally sound business practices, resources can be saved which will lead to internal cost savings, thus making a positive contribution to achieving financial performance for the bank. In contrast to previous research, (Scholtens & van't Klooster, 2019) argue that agency problems must be considered in the adoption of sustainable issues because environmental and social activities require extra costs that lead to competitive losses, which in turn will have a negative effect on bank performance. Therefore, it can be said that sustainable bank practices will influence bank performance. This can be stated as the following hypothesis:

H2 = Sustainable Banking has Significant Positive Influence on Company Value

The Effect of Company Size on Company Value

Company size is a scale that can classify the size of the company according to several aspects, including total assets, average total assets, total profit, etc. According to Dea (2020), company size determines the number of members associated with it selection of ways to control activities in an effort to achieve goals. Company size can influence corporate social performance because large companies have a more distant view and therefore participate more in growing corporate social performance.

Previous research shows that there are differences related to the influence of company size on company value. According to Abbas (2020), company size has a significant negative effect on company value, whereas according to research from Selvi (2019) company size has a significant positive effect on company value. The bank's ability to increase assets will boost company value. On the other hand, the size of bank companies which tend to be small can certainly be low or small in driving company value. Investors will be interested in investing when the bank has a large company size. This can be stated as the following hypothesis:
H3 = Company size has a significant positive effect on company value.

The Influence of Organizational Culture on Company Value

Company culture, which can be called organizational culture, is a belief, value, pattern system that has been created together for members to follow which can differentiate an organization from other organizations. Research according to (Romadhona & Wahyuningtyas, 2019) states that organizational culture has a positive influence on performance. The higher the organizational culture, the higher the employee performance. The higher the employee's performance, the higher the value of the company itself. From a different perspective, several researchers see that different bank cultures will produce different company values (Aydoğmuş et al., 2022; Isnurhadi; Sulastri; Saftiana, Y.; Jie, 2023; Zhang et al., 2020; Zharfpeykan & Akroyd, 2023). Thus, the research hypothesis can be formulated as follows:
H4 = Differences in banking culture have an impact on company value.

Research Method

This research uses an associative research approach. This method aims to determine the relationship between banking performance and sustainable banking on company value. Data collection techniques in this research were carried out by reviewing documents, especially annual reports and company sustainability reports. Secondary data was collected from both reports based on the research data year, namely 2020-2023. Secondary Data Collection obtained from internet media by downloading via the site www.idx.com to obtain data regarding financial reports needed in research.

The data analysis techniques used in this research are descriptive analysis and multiple linear regression analysis. Regression analysis is the central tendency of data that complements differential statistical analysis. Meanwhile, multiple linear regression analysis is an analysis to determine the effect of more than one independent variable on more than one dependent variable on the dependent variable. A multiple linear regression analysis model is used to explain the relationship and how much influence the variables have. The following is the regression equation developed in this research:

$$Y = \alpha + \beta_1 \text{ (Performance)} + \beta_2 \text{ (SR)} + \beta_3 \text{ (Size)} + \beta_4 \text{ (Cult)} + \varepsilon$$

Keterangan :
Y = Company Value
α = Constant Parameters
β = Beta Coefficient (Gradient)
SR = Sustainability Report

Result and Discussion

Banking performance has a significant positive effect on Company Value

Based on literature, company value is observed through the effectiveness and efficiency of a company in managing all its assets in generating profits (Return On Assets - ROA). The results of this research show that banking performance has a significant positive effect on company value (Ikhwan, et al. 2021). The results of this research are not in line with research conducted by Hermawan, 2017 which shows that ROA has a negative effect on company value.

Sustainable Banking has a significant positive impact on company value

Based on literature from Yulianti, et al (2020), it shows that sustainable banking has a positive influence on company value. The results of this research are not in line with research conducted by Handajani (2021) which states that sustainable banking does not have a significant effect on company value.

Company size has a significant positive effect on company value.

Based on literature, this research identify that shareholders and potential investors need to take into account the size of the company, because company size affects the value of the company. The research results are in accordance with Farida (2017) showing that company size has a significant positive effect on company value. Large total assets can be used to increase company activities. An increase in Company activity will increase Company profits. The research results are not in line with Abbas (2020) which shows that company size has a significant negative effect on company value.

Differences in banking culture have an impact on company value.

Research according to (Romadhona & Wahyuningtyas, 2019) states that organizational culture has a positive influence on performance. The higher the organizational culture, the higher the employee performance. The higher the employee's performance, the higher the value of the company itself.

This research was conducted using an associative research analysis approach to determine the relationship between banking performance and sustainable banking on company value with data sources originating from annual reports and company sustainability reports for the 2020-2023 period.

Based on the results of the regression analysis, the results obtained show that sustainability and banking performance show that these variables have a positive effect on company value. A model of the relationship between performance, sustainability, and company value was built by presenting new variables, namely company size and culture as controlling variables. The variables of company size and culture also produce a positive relationship with company value.

Conclusion

The conclusion obtained is that sustainable variables, banking performance, company size and culture have a positive relationship with company value. The results obtained are able to provide solutions to increase company value by implication through achieving performance and sustainable banking with company size and organizational culture as control variables.

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