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The Effect of Profitability, Disclosure Sustainability Finance, Sustainability Report Assurance on Cost of Debt

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Abstract

The study's objective is to determine how profitability, financial disclosure sustainability, sustainability report assurance, and firm age and size as control variables affect the cost of debt. 47 banking companies that will be available for purchase on the Indonesia Stock Exchange (IDX) between 2017 and 2021 make up the sample for this study. Secondary sources like annual reports and sustainability reports provide this data. Analyses of multiple linear regression was the method of analysis that used in this study. The testing in this study shows that the profitability variable has a negative and significant effect on the cost of debt, as do the sustainability financial disclosure and sustainability report assurance variables, as well as the sustainability report assurance variable.

Keywords

Profitability; Disclosure of Sustainability Finance; Sustainability Report Assurance; Cost of Debt; Company Age; Company Size

INTRODUCTION

Companies that go public have several alternatives in funding by obtaining loans or selling their shares. Companies of many kinds are made in such a way as to lure investors or creditors to be able to provide loans for the continuity of a company's business (Haryadi, 2020). In addition, companies must take into account adequate funding decisions (Febrinalda & Hasnawati, 2022). Using company debt leads to borrowing costs. According to PSAK No. 26 (amendment of 2011), borrowing costs are interest and other costs incurred by companies in connection with borrowed capital

In reality, investors and creditors are reluctant to invest their capital and lend to companies because of the risks involved. Company risk is used as a reserve for investment or credit for companies (Parendra, 2020). Creditors assess the income received in accordance with the risk taken. Thus, creditors need to research which companies to invest in, and creditors must consider how small and how big the health risk is in the market conditions they enter (Siswanti, 2020).

The most recent cases of several companies in Indonesia in 2022 occurred with high debt problems. On the Indonesia Stock Exchange, eleven businesses were listed with debts exceeding Rp 50 trillion until the end of last year. One of the reasons for this high debt is the high interest expense (cost of debt).

Various factors that affect the cost of debt include company characteristics, namely profitability (Rizky, 2020); (Sherly & Fitria, 2019) A company's profitability is its capacity to generate profit for the continuity of the company's business (Aldubhani, 2022). Profitability is one of the factors considered by creditors before providing a loan by looking at how much risk is taken, because the loan given is related to the ability to pay interest on the loan.

Apart from the influence of profitability on borrowing costs, other factors that can influence investors and lenders' lending decisions include disclosure of sustainable finance (Zheng, 2021). Companies must carry out CSR activities in order to reduce the risks owned by the company (Dhoraisingam, 2022). Even though sustainability reports are voluntary in Indonesia, many companies are increasingly disciplined in disclosing their sustainability reports, because if the company does not disclose activities related to the

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environment and social, then investors or creditors will compare with other companies and even the company's competitors and will judge the company. still lacking in environmental and social care (AlKhouri & Suwaidan, 2022).

Current business progress requires companies to have report credibility and improve company reputation, therefore companies perform assurance on the information contained in sustainability reports (Hermawan & Septiani, 2022). Assurance from the sustainability report is also a factor that affects the cost of debt. This assurance is called sustainability report assurance which is a process that can increase the credibility and accuracy of sustainability reports for decision making for stakeholders.

The research results still vary due to the possibility of differences between the samples and the variables tested. In this study the difference with previous research lies in the independent variables and the sample. In addition, this study adds company characteristics, namely profitability as an independent variable, and adds company age and size as control variables. The background to the addition of this control variable is the fact that age and company size can affect the cost of debt (Istiqomah, 2021). According to this research, there is an update using SEOJK No. 16 of 2021 as a measurement for the independent variable, namely disclosure of sustainable finance.

Based on these problems, the purpose of this study is to examine how profitability affects, sustainability financial disclosure and sustainability report assurance on the cost of debt.

Profitability (X1)

Accroding to Simarmata & Fauzi, (2019)profitability is a measuring tool for a company in generating profits by using the resources owned by the company from company activities. The profitability of the company greatly influences the profits generated, so that investors and creditors view the company's management as better the higher the profit.

In research conducted by (Wang, 2022) the rate of return on total assets using profitability as a measuring tool is negatively related to debt's price.

H1: Debt costs are negatively impacted by profitability.

Disclosure of Sustainability Finance (X2)

Financial Control Regulation No. 51 of 2017 states that to achieve sustainability, companies must maintain financial stability by prioritizing harmony between environmental, economic and social aspects. Implementing sustainability financial disclosures companies can obtain many benefits, such as companies that are more attractive to investors and companies can control economic, social and environmental performance.

Research conducted by Dhoraisingam (2022) disclosed sustainability finance has a negative impact on debt costs, these results are proven, when there is high quality sustainability financial disclosure it can help reduce debt costs by reducing information disparity between creditors and businesses.

H2: Disclosure of Sustainability Finance has a negative impact on debt costs

Sustainability Report Assurance (X3)

Sustainability report assurance is a method to optimize the reliability and credibility of reports to make decisions for stakeholders. The application of assurance in Indonesia is not yet mandatory, so there are still many companies that do not guarantee their reports. This research topic is relatively new, there are only a few studies on sustainability report assurance. However, there is overseas research conducted by Kuo (2021) that companies using assurance in their sustainability reports can help boost the credibility of reports from outside sources.

H3: Sustainability Report Assurance has a negative impact on debt costs

Company Age (X4)

To measure business performance and to give investors and creditors more confidence in investing or providing loans, namely information obtained from external parties (Istiqomah, 2021). With the age of the company, it can be seen to what extent the company's experience in running a business, and the decisions taken by the company in a problem are more optimal (Noveliana, 2022).

Company Size (X5)

A comparison of the size of a company based on its total assets is known as company size

(Anisa, 2022). The bigger the company's assets, the more reliable the company's results are offered to investors, which means the lower the company's risk (Ulfa, 2019).

Cost of Debt (Y)

Companies have several alternatives in carrying out funding, one of which is using debt obtained from external parties, namely creditors (Utama, 2019). Borrowing costs arise from funds received by creditors to finance the company, borrowing costs are the interest earned by creditors for the necessary return rate (Husaeni, 2018).

The cost of debt is the reciprocal return that must be paid by the company to the lender, therefore interest charges arise from these loans using the weighted average interest expense which is based on debt instrument values (Pangestu, 2022).

METHODS

This study empirically analyzes the independent variable cost of debt which consists of profitability, sustainability financial disclosures, and the sustainability report's dependability as the dependent variable and the motivation based on the company's age and size as the control variables. Secondary information regarding the number of banking firms that are listed on the Indonesia Stock Exchange (IDX) are used in this study for the 2017-2021 period. The secondary data used is the annual report and sustainability report that can be found on the website of the Indonesian Stock Exchange (IDX). Multiple regression is used to test the hypotheses in this study. methods of analysis, correlation, and conclusion.

RESULTS AND DISCUSSION

Based on the results of statistical analysis of the coefficient table, the regression equation is obtained as follows:

Table 1. Reggresions Analysis

		Unstand. Coef		Stand. Coef		
Model		B	Std. Error	Beta	t	Sig.
1	Const	.032	.004		8.544	.000
	X1	-.055	.009	-.285	-5.819	.000
	X2	-.010	.003	-.206	-3.127	.002
	X3	-.011	.001	-.462	-7.684	.000
	X4	-1.163	.000	-.033	-.618	.538
	X5	.001	.000	.256	4.838	.000

a. Dependent Variable: Cost of Debt (Y)

The results from 1, the following equation can be formulated:

$$Y= 0.0032 - 0.055X1 - 0.010X2 - 0.011X3 - 1.163X4 + 0.001X5$$

The findings of the multiple linear regression analysis for a constant value of 0,032, indicating that profitability, sustainability financial disclosure, sustainability report assurance, company age, company size are constant then the cost of debt is 0,032.

Table 2. Coefficient of Determination

R	R Square	Adj. R Square	Std. Error of the Est
.878	.771	.760	.00486

Value of the Adjusted R Square of 0.760 indicates the coefficient of determination, as shown in table 2. According to these findings, the profitability, sustainability financial disclosure, and 76% of the variation in the dependent variable, which is the cost of debt, is accounted for by assurance independent variables in the sustainability report. On the other hand, other variables that were not examined in this study can account for the remaining 24%.

Table 3. Uji Parsial (t)

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	X5	.001	.000	.256	4.838	.000

a. Dependent Variable: Cost of Debt (Y)

The hypothesis that profitability affects debt costs negatively was tested, and the results had a coefficient value of -0.055, indicating that the hypothesis can be supported. If we continue to examine the p-value, which is 0.000 0.05, accepting the hypothesis, we can conclude that profitability has a significant negative effect on debt costs. This research is consistent with previous studies Mulyana & Daito (2021) which demonstrates that high-profit businesses have low debt levels, indicating that profitability has a negative impact on the cost of debt. Disclosure of sustainability finance has a significant and negative impact on the cost of debt for IDX-listed banking firms from 2017 to 2021. This demonstrates that debt costs can be reduced through effective sustainability financial disclosure.

With a coefficient value of -0.010, the results of testing the hypothesis that sustainability financial disclosures have a negative effect on debt costs is supported by the effect of sustainability financial disclosures on debt costs. The p-value, which is 0.002 0.05, indicates that disclosure of sustainable finance has a negative and significant effect on the cost of debt, so the hypothesis is accepted. This research is consistent with that of Dhoraisingam (2022), which demonstrates that enhanced sustainability financial disclosures can lessen the information asymmetry that exists between creditors and businesses, thereby lowering the cost of debt.

The results of testing the effect of sustainability report assurance has a coefficient value on debt costs showing a negative result of -0.011, meaning that It is possible to demonstrate that the assurance of sustainability reports has a negative impact on debt costs. The hypothesis is accepted because the p-value, which is 0.000 0.005, indicates that sustainability report assurance has a negative and significant impact on debt costs. This study is consistent with Kuo (2021) study, which demonstrates that businesses that include assurance in their sustainability the credibility of reports from outside sources can be improved.

The results of the test for the control variable of firm age have a coefficient value showing a negative result of -1.163, and a p-value of 0.538 which means that firm age is not significant to the cost of debt. The results of testing the control variable for company age are in line with research conducted by Mulyana & Daito (2021) which states that statistically the company's age has no significant impact, because companies that have just been established are now able to develop well and compete with companies that have been established for a long time.

The coefficient value for the subsequent control variable, company size, is positive, with a value of 0.001, indicating that the size of a company positively influences the cost of debt. If a company's size has a p-value of 0.000, it has a significant positive effect on debt costs. These outcomes are consistent with the study of Soebagyo & Iskandar (2022) which demonstrates that the size of a company has a positive effect on the cost of debt because a larger company has greater funding requirements.

CONCLUSION

The following are the study's conclusions, which are based on the results described in the preceding chapter:

1. The expense of debt for banks listed on the IDX between 2017 and 2021 is significantly and negatively impacted by profitability. The lower the company's profitability, the lower its debt costs, can be explained by these findings.
2. The price of debt for listed banking organizations IDX between 2017 and 2021 is significantly and negatively impacted by the disclosure of financial riots. This demonstrates that debt costs can be reduced through effective financial disclosure. The assurance of sustainability reports has a negative and significant impact on the cost of debt for banks listed on the IDX between 2017 and 2021. Based

on these findings, it can be deduced that banks with debts listed on the IDX between 2017 and 2021 are guaranteed by companies that provide guarantees for sustainability reports.

3. The cost of debt for banks listed on the has a significant negative impact due to the assurance of sustainability reports IDX between 2017 and 2021. Based on these findings, it can be deduced that businesses that offer guarantees for sustainability reports have the ability to improve a report's accuracy and credibility, which in turn increases creditor confidence and lowers debt costs.
4. As a control variable, company age demonstrates that it has no significant impact on the COD of banking companies listed on the IDX between 2017 and 2021. These findings may suggest that a company's age can lower the cost of debt, but this is not the case because recently established banking institutions are able to compare their businesses in a way that attracts creditors' attention.
5. Between 2017 and 2021, the control variable of company size demonstrates that it has a positive and significant effect on the cost of debt for IDX-listed banks. According to these findings, a larger business requires even more capital to meet its needs, which is why debt costs more.

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