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Sustainability reporting as a strategic tool to strengthen green competitive advantage and firm value in banking sector

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Abstract

This study aims to analyze the role of sustainability reporting as a strategic tool for strengthening green competitive advantage and increasing corporate value in the banking sector. Increasing global pressure on the financial sector to contribute to sustainable development by implementing responsible and environmentally friendly business practices drives this research. It is hoped that transparent, integrated sustainability reporting will enable banking companies to build a sustainable green competitive advantage and increase stakeholder trust. This study uses secondary data obtained from the annual and sustainability reports of banks listed on the Indonesia Stock Exchange between 2019 and 2023. The SEM-PLS method was used to analyze the data and test the effect of sustainability reporting on green competitive advantage and company value while controlling for company size and profitability. This study uses secondary data obtained from the annual and sustainability reports of banks listed on the Indonesia Stock Exchange between 2019 and 2023. The SEM-PLS method was employed to analyze the data and examine the impact of sustainability reporting on green competitive advantage and company value while accounting for company size and profitability. The results indicate that green competitive advantage (GCA) significantly and negatively mediates the effect of environmental, social, and governance (ESG) factors on price-to-book value (PBV). This suggests that the green strategies currently adopted by Indonesian banks are considered a short-term cost burden by the market rather than a means to increase company value. Other research shows that the profitability control variable, ROA, has no significant effect on PBV because short-term profits are not considered a sustainable indicator of company value in highly regulated industries, such as banking. Another control variable, company size (ln TA), significantly affects PBV. This suggests that investors prioritize asset scale over profitability or green performance when assessing company value.

Keywords: Sustainability Reporting; Green Competitive Advantage; Firm Value; Size; Profitability; Banking; Indonesia

INTRODUCTION

In an era of global competition and growing environmental consciousness, companies must focus not only on financial performance, but also on social and environmental responsibility. The concept of sustainability has become a key consideration in corporate strategy, particularly within the banking sector, given its pivotal role in financing sustainable development. Banks are responsible for ensuring that their financing activities support environmental, social and governance (ESG) principles, thereby contributing to the achievement of the sustainable development goals (SDGs).

In this context, one emerging strategy is Green Competitive Advantage (GCA), defined as the ability of companies to gain a competitive edge through innovation and environmental efficiency (Chen, 2008). In the banking sector, this is reflected through green financing policies, digitally driven operational efficiency and a positive reputation for sustainability. It is believed that the application of GCA enhances reputation and customer loyalty, ultimately influencing firm value.

In addition, sustainability reporting is an important instrument that reflects a company's transparency and accountability with regard to its environmental, social and governance (ESG) performance. According to Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, all financial services institutions must prepare a sustainability report to demonstrate their social and environmental responsibility. Better sustainability disclosure can strengthen positive investor perceptions and increase company value (Friskey et al., 2022).

However, fundamental factors such as profitability and company size are still considered key determinants of value. Profitability reflects a company's ability to generate profits, while company size reflects the scale of its operations and resource capacity. Several studies have found that larger, more profitable companies tend to engage in sustainability practices more actively because they have more adequate resources (Luo & Bhattacharya, 2006).

Although the relationship between sustainability and corporate value has been extensively researched, inconsistencies in research results and contextual gaps remain, particularly in Indonesia's banking sector. In terms of conceptual gaps, while most studies on Green Competitive Advantage (GCA) have focused on the manufacturing and energy sectors (Chen, 2008), the application of this concept in banking is relatively new and under-explored. Indeed, banks play a key role in steering economic activities towards sustainability by implementing green financing policies and improving operational efficiency. Empirical research on the relationship between sustainability reporting and company value produces inconsistent results. Hermawan et al. (2018) and Rini and Adhariani (2021), find that sustainability reporting has a positive effect, as it enhances corporate reputation and strengthens investor confidence. However, other studies Firmansyah and Trisnawati (2021) show no significant effect, arguing that the Indonesian capital market has not yet responded adequately to non-financial information. Research combining sustainability reporting and GCA in a single model to explain firm value remains limited. In terms of contextual gaps, the Indonesian banking sector has unique regulations and characteristics, such as compliance with the OJK and green banking policies. Nevertheless, research evaluating the impact of GCA strategies and sustainability reporting practices on the value of Indonesian banks remains scarce. In terms of methodological gaps, some previous studies have only used environmental performance variables or ESG disclosure without including Green Competitive Advantage as a strategic construct that links sustainability reporting to firm value. According to the Natural Resource-Based View theory (Hart & Dowell, 2011), green competitive advantage is in fact a key mechanism that transforms sustainability practices into being valuable to a firm.

Based on the above description, the aim of this study is twofold. First, it seeks to analyse the influence of Green Competitive Advantage (GCA), sustainability reporting, profitability and company size on company value in the Indonesian banking sector. Secondly, it provides empirical evidence on the role of green strategy (GCA) in determining company value in the strictly government-regulated financial sector. Thirdly, it contributes to the body of literature on the relationship between sustainability practices and company value from the perspectives of the resource-based view and stakeholder theory.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review and Hypothesis Development

The Natural Resource-Based View (NRBV) is an extension of the Resource-Based View (RBV). The RBV is a fundamental theory in strategic management which emphasises the importance of a company's internal resources as a source of competitive advantage (Barney, 1991). In the context of this study, the RBV provides a theoretical basis for understanding how green intellectual capital, green innovation and green organisational culture can constitute unique and valuable resources that contribute to a company's sustainable competitive advantage. NRBV, developed by (Hart & Dowell, 2011), emphasises that a company's ability to manage and utilise environmental resources, such as energy efficiency and waste management, can create a green competitive advantage. In banking, this may manifest as green financing policies, environmentally friendly digitalisation, and a reputation for supporting sustainable development.

Essentially, the stakeholder theory states that a company is an entity that operates not only for its own interests, but also for the benefit of its stakeholders. According to Freeman (1984), companies should consider the interests of all stakeholders, not just shareholders. Sustainability reporting is a means of communicating a company's commitment to social and environmental responsibility, thereby enhancing public trust and reputation and ultimately affecting the company's value.

According to legitimacy theory, companies seek to obtain and maintain legitimacy from society by acting in accordance with prevailing social values (Suchman, 1995). According to legitimacy theory, the media and social pressure can influence corporate legitimacy, meaning that companies must use reporting strategies to maintain public trust. Legitimacy theory explains how companies can obtain, maintain or restore their social legitimacy by adapting their environmental accounting practices and reporting to align with societal expectations. In this way, sustainability reports and green practices become tools of corporate legitimacy, demonstrating compliance with environmental and social norms.

Green competitive advantage is based on a company's commitment to minimising harmful environmental and social impacts, ensuring that sufficient resources will be available in the future to meet their needs and achieve long-term success (Widiyati & Murwaningsari, 2021). It is a company's competitive advantage relating to its products, which meet market needs and consumer desires while taking the natural environment into account. Companies that successfully implement green strategies, such as improving energy efficiency, innovating environmentally friendly products, or offering green financing, can enhance their image and reputation, gaining loyalty from customers and investors in the process. Ultimately, this has a positive impact on firm value (Chen, 2008).
H1: Green competitive advantage effect on firm value.

Sustainability reporting involves entities measuring and disclosing all activities related to their social and environmental conservation efforts, as well as their efforts to become accountable to all stakeholders in achieving performance goals for sustainable development (Shauki, 2022). Initially, there was a negative correlation between sustainability reporting and company value (Tobin's Q). Over time, however, this correlation became positive, indicating that, initially, sustainability reporting was a costly signal, but subsequently increased company value as companies and investors gained a better understanding of sustainability reports (Friskey et al., 2022). Endiana and Suryandari (2021) show sustainability reports significantly impact a company's market value. The greater the transparency in sustainability reporting, the higher the company's market value, as these reports contain relevant decision-making information. However, previous research results are mixed: some studies have found a positive effect, while others have found no significant effect, as the market has not yet fully assessed non-financial information (Firmansyah & Trisnawati, 2021).
H2: Sustainability reporting effect on firm value.

Sampurna and Romawati (2019) analyses the factors influencing company value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The results demonstrate that company size and profitability (ROA) significantly impact company value (Tobin's Q). More profitable companies have the ability to generate high cash flows, which signals to investors how the company is performing and what its future prospects are (Luo & Bhattacharya, 2006). High profitability can increase investor confidence and raise company value.
H3: Profitability effect on firm value.

According to signalling theory, large companies tend to send positive signals to investors through their asset capacity, operational stability and ability to survive competition. The size of a company is often considered an indicator of its financial strength and ability to cope with higher business risks, thereby increasing market confidence in it. From an agency theory perspective, larger companies have better monitoring and governance systems, which reduces conflicts of interest between management and shareholders. Effective governance improves efficiency and ultimately has a positive impact on company value. According to resource theory, the size of a company usually

reflects its greater ownership of resources, whether in the form of physical assets, human resources, or technology. These resources provide stronger competitive capabilities, which can increase company value. Sampurna and Romawati (2019) state that company size positively affects company value because large companies are considered to be at lower risk of bankruptcy. Jannah & Sartika (2022) found that company size has a negative impact on firm value (PBV). Investors believe that large companies tend to retain more profits rather than distribute dividends, so company size does not have a significant influence on firm value. Reschiwati et al. (2020) also demonstrate that company size has a negative impact on firm value (PBV)
H4: Company size effect on firm value.

Sustainability reporting is a form of corporate transparency involving the disclosure of responsible economic, social and environmental activities. According to the Resource-Based View (RBV) theory, such disclosure can be a strategic resource that improves a company's reputation, operational efficiency and green innovation, ultimately strengthening its green competitive advantage. Companies that consistently compile sustainability reports demonstrate their commitment to sustainable business practices. This encourages energy efficiency, waste reduction and environmentally friendly product innovation. These efforts act as differentiators that are difficult for competitors to imitate, thereby strengthening green competitive advantage. (Chen, 2008) states that environmentally friendly practices increase green competitive advantage. Tarnovskaya (2023) demonstrate that sustainability disclosure contributes to an increase in a company's green competitiveness. For sustainability to become a source of sustainable advantage, it must be transformed from a competitive strategy into a cooperative strategy. This can be achieved by embedding sustainability and applying the principle of degrowth, rather than merely using it as a tool for business image-building or an additional CSR measure.
H5: Sustainability reporting effect on green competitive advantage.

According to the Natural Resource-Based View (NRBV), a sustainability strategy can create an environmentally based competitive advantage, ultimately improving company performance and value. In this context, sustainability reporting acts as a mechanism that encourages the development of a green competitive advantage, thereby increasing company value. Not only does sustainability reporting function as an external communication tool, it also strengthens the internalisation of sustainable practices in business strategy. This practice generates green competitive advantages such as resource efficiency, green product innovation and a positive reputation. These advantages strengthen the relationship between sustainability reporting and increased company value. Yusoff et al. (2018) state that sustainability reporting affects company value through environmental performance and green competitiveness. Wang et al. (2016) found that green competitive advantage mediates the relationship between sustainability practices and company market value.
H5: Green competitive advantage mediates the effect of sustainability reporting on firm value.

METHODS

This is a quantitative study that uses secondary data obtained from the Indonesia Stock Exchange (IDX) website and the company websites. The data used in this study comprised the annual and sustainability reports of banking sector companies listed on the IDX between 2019 and 2023. Purposive sampling was used, selecting companies that had published annual, environment disclosure and sustainability reports for this period. Based on these criteria, a sample of 47 companies was obtained, providing a total of 151 data observations. Data analysis was performed using SEM-PLS. The dependent variable in this study was company value, specifically market value, reflecting investors' perceptions of a company's performance and future prospects. Company value was proxied using price-to-book value (PBV). The independent variable was sustainability reporting, defined as the disclosure of information regarding a company's environmental, social and governance performance. Sustainability reporting was measured using the ESG index (Velte, 2017). This study employs both mediating and control variables. The mediating variable is green competitive advantage, defined as a

company's ability to create competitive advantages through environmental innovation and efficiency. Environment disclosure is used as a proxy for measuring green competitive advantage (Li et al., 2013). The control variables used are company size, measured using log total assets, and profitability, measured using return on assets (ROA).

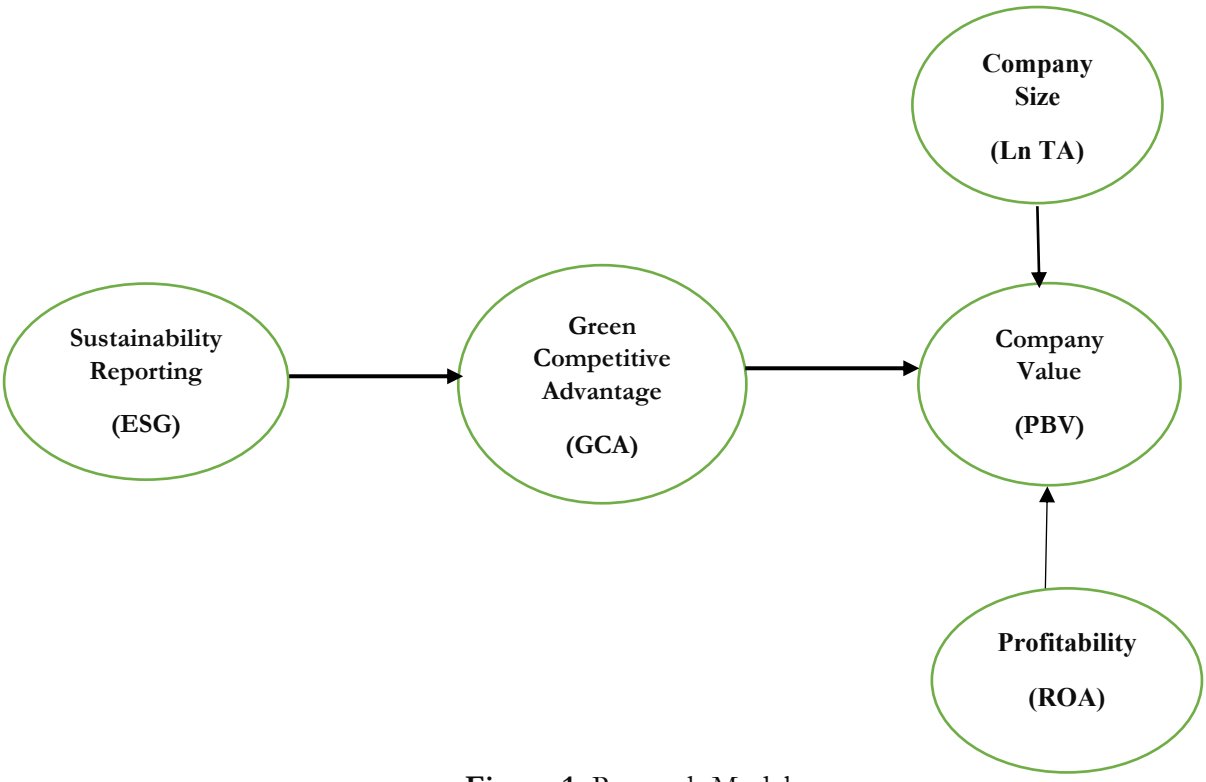

Figure 1. Research Model

RESULT AND DISCUSSION

Based on the results of the descriptive statistical analysis, provide an overview of the distribution and central tendencies of all variables used in this study. Firm value, measured using PBV, shows a wide range from 0.00032 to 6.19903, with an average of 1.4693. This indicates that although some firms are valued very low in the market, others achieve considerably higher valuation multiples. The standard deviation of 1.2708 reflects substantial variation in firm value across the sample. Sustainability reporting (SR), measured by ESG index also varies significantly, with scores between 9 and 94 and a mean of 66.19. This suggests that while several firms disclose sustainability information at a minimal level, many others have more extensive reporting practices. The relatively high standard deviation of 19.58 indicates considerable differences in sustainability disclosure quality or completeness among the firms.

Firm size (LNTA) ranges from 28.58 to 46.83, with a mean value of 33.15. This shows that the sample includes firms of diverse sizes, although the moderate standard deviation of 4.74 implies that most firms cluster around the average size level. Profitability (ROA) spans from –0.07183 to 7.20490, with an average of 0.1008. This indicates that while some firms experience slight losses, others are highly profitable. However, the standard deviation of 0.8045 suggests noticeable variation in profitability across the sample. Green Competitive Advantage (GCA) shows values from 1 to 29, with an average score of 8.57. This indicates that many firms still demonstrate relatively low levels of green competitive practices, while a few exhibit stronger green strategic positions. The standard deviation of 5.757 reflects considerable heterogeneity in the adoption or effectiveness of green competitive initiatives. Overall, the descriptive results indicate substantial variability across firms in terms of valuation, sustainability reporting, size, profitability, and green competitiveness, supporting the suitability of further inferential analysis. The results of the descriptive statistical analysis are shown in table 1 below:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
PBV	151	,00032	6,19903	1,4692952	,10341669	1,27080556
SR (ESG)	151	9	94	66,19	1,593	19,580
LNTA	151	28,58139	46,82837	33,1523643	,38607472	4,74416564
ROA	151	-,07183	7,20490	,1007817	,06546629	,80446328
GCA	151	1	29	8,57	,468	5,757
Valid N (listwise)	151					

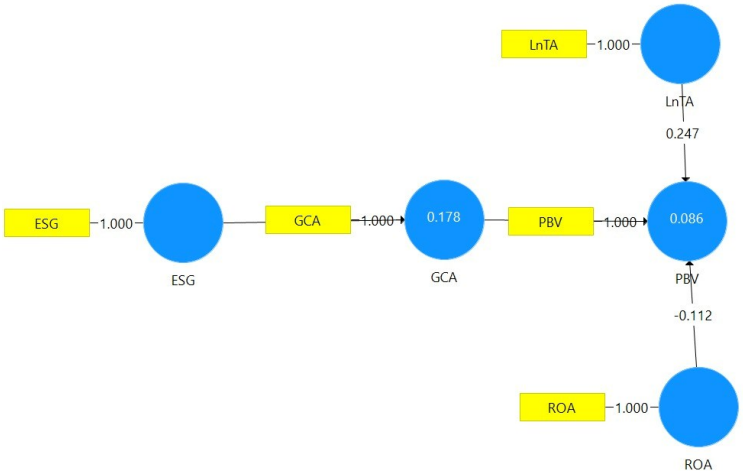

Figure 2. PLS Model Result

The R-squared value is used to test the effect of independent variables on dependent variables. According to (Hair et al., 2021) an R-squared value of 0.25 indicates a weak effect; 0.5 indicates a moderate effect; and 0.75 indicates a strong effect. The F-squared value measures how well the variabel fits the data. An F-squared value of 0.1 indicates a poor fit, 0.25 indicates a moderate fit and 0.36 indicates a good fit. The goodness-of-fit value tests how well the research model fits.

Table 2. R Square & f Square

	R Square	**R Square Adjusted**
GCA	0,178	0,173
PBV	0,086	0,068

	GCA	**LnTA**	**PBV**	**ROA**	**ESG**
GCA			0,021		
LnTA			0,065		
PBV					
ROA			**0,014**		
ESG	**0,217**				

The R-squared value of the GCA variable is 0.178, meaning the GCA variable is influenced by the ESG variable to the extent of 17.8%. The R-squared value of the PBV variable is 0.086, meaning

that the influence of the GCA, Ln TA and ROA variables on PBV is 6.8%. The F-squared value of GCA on PBV is 0.021, indicating a very low compatibility between the variables. Similarly, the F-squared value of Ln TA on PBV is 0.065, indicating a very low compatibility between the variables. The F-squared value of ROA on PBV is 0.014, indicating that the fit between the variables remains very low. Only the F-squared value of the ESG variable on the PBV variable has a moderate fit, at 0.217.

The results of hypothesis testing are seen from the significance level of p-val less than 0.05 (Hair et al., 2021). The results of the research hypothesis testing can be seen in the table below:

Table 3. Path Coefficient & Specific Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
GCA -> PBV	-0,141	-0,142	0,065	2,155	0,032
LnTA -> PBV	0,247	0,244	0,102	2,417	0,016
ROA -> PBV	-0,112	-0,093	0,077	1,458	0,146
ESG -> GCA	0,422	0,419	0,056	7,534	0,000

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
ESG -> GCA -> PBV	-0,060	-0,060	0,030	2,011	0,045

The path coefficient test results showed that GCA and Ln Total Assets significantly affected PBV ($p < 0.05$), while ROA did not affect PBV as the p-value (0.146) was greater than 0.05. Further results revealed that ESG significantly impacted GCA, with a p-value of less than 0.05. The original sample value of GCA → PBV is -0.141, indicating that GCA has a negative effect on PBV. The original sample value of Ln TA → PBV is 0.247, indicating that Ln TA has a positive effect on PBV. The original sample value of ESG → GCA is 0.442, indicating that ESG has a negative effect on GCA. The results of the specific indirect effect test prove that GCA mediates the effect of ESG on PBV, with a p-value of 0.045 which is less than 0.05. However, the original value of the ESG → GCA → PBV sample is -0.060, which means that GCA mediates the negative effect of ESG on PBV.

The results of testing on the structural model show that Green Competitive Advantage (GCA) has a negative and significant effect on Price to Book Value (PBV) with an original sample value of –0.141 and a p-value of 0.032. These findings suggest that the greater the green advantage strategy implemented by banks, the greater the decline in company market value. This differs from theoretical expectations, which assume that green strategies can increase company value by improving reputation and investor confidence. These negative results can be explained contextually by the characteristics of the Indonesian banking sector, which is still in the early stages of implementing the concept of green banking. Implementing green strategies, such as developing green financing products and applying energy efficiency and environmental management systems, requires significant investment in the early stages. These costs can put pressure on short-term profitability, resulting in negative market perceptions of firm value.

Furthermore, these negative results reflect the fact that the Indonesian capital market does not fully appreciate green policies as factors that increase economic value. Investors in emerging markets generally prioritise short-term financial performance, such as profits or asset efficiency. Consequently, the market has not responded positively to sustainability initiatives and green strategies. In this context, GCA does not yet function as a genuine competitive advantage; rather, it remains a compliance-based strategy designed to meet regulatory and reputational requirements. Consequently,

the economic benefits of green strategies have not been reflected in market valuations, resulting in a decline in PBV.

Furthermore, the results of the analysis also show that GCA negatively mediates the relationship between environmental, social and governance (ESG) factors and price-to-book value (PBV), with an indirect effect value of –0.060 and a p-value of 0.045. This suggests that while improved ESG performance encourages banks to strengthen their green strategies, the subsequent effect of GCA on market value is negative. Therefore, GCA acts as a mediator that weakens the positive relationship between ESG and firm value. From the Resource-Based View (RBV) perspective (Barney, 1991), a sustainable competitive advantage can only be achieved if a company can manage its valuable, rare, difficult-to-imitate and irreplaceable internal resources effectively. In this context, sustainability reporting becomes a mechanism for internalising sustainability values, encouraging green innovation, energy efficiency and a positive environmental reputation. Thus, the results of this study confirm that sustainability reporting plays a key role in establishing a green competitive advantage. However, the economic benefits of sustainability reporting will only be realised if it is followed by the implementation of green strategies in operational activities. This reflects the reality of banking in Indonesia, where most banks still focus on fulfilling their sustainability reporting obligations rather than using these reports strategically to create value. This finding supports the idea that green strategies in banking currently incur high implementation costs and have not yet resulted in recognised value creation.

The control variables suggest that profitability (ROA) has no significant effect on PBV because short-term profits are not considered a sustainable indicator of company value in highly regulated industries such as banking. Investors believe that large companies with strong capital structures and stable reputations can generate long-term value more effectively than small banks that rely solely on current profit levels. In the banking industry, high profits do not necessarily reflect sustainable fundamental performance; they may also indicate increased credit risk or dependence on macroeconomic conditions (Athanasoglou et al., 2008).

Another control variable is company size (ln TA) has significant effect on PBV, this suggests that, when assessing firm value, investors still prioritise asset scale over profitability or green performance. In theory, company size has a significant influence on PBV, which is consistent with Signalling Theory and Economies of Scale Theory. Greater company size reflects greater resource capacity, operational stability and market power. Banks with high total assets tend to inspire greater confidence among the public and investors, as they are considered better able to deal with risk, meet capital requirements and support large-scale project financing. Therefore, company size is a positive indicator of the fundamental strength and resilience of these financial institutions.

Overall, the results of this study suggest that green competitive advantage in the Indonesian banking sector has not yet become a fully realised source of strategic advantage that increases company value; rather, it is still perceived as a costly activity without commensurate market returns.

CONCLUSION

This study analyse the role of Green Competitive Advantage (GCA) in mediating the influence of Environmental, Social and Governance (ESG) factors on firm value (Price to Book Value, or PBV) in the Indonesian banking sector. The results demonstrate that GCA significantly and negatively affects PBV, thereby mediating the negative relationship between ESG and PBV. These findings suggest that the green strategies currently adopted by Indonesian banks are still viewed by the market as a short-term cost burden rather than as a means of increasing firm value.

Nevertheless, these results highlight the potential for green strategies and ESG performance to create long-term economic value when effectively integrated into business models, product innovation and transparent communication of sustainability efforts to investors. Therefore, the success of green strategies hinges not only on compliance with environmental regulations, but also on management's capacity to convert them into sustainable business opportunities that generate value for shareholders and other stakeholders.

These results open up new avenues of research for future researchers investigating the mechanisms linking environmental, social and governance (ESG) factors, green competitive advantage (GCA) and company value in the financial sector. Firstly, it is recommended that further research considers other mediating or moderating variables, such as green innovation, corporate reputation or financial performance. This would help to understand how green strategy transforms into more comprehensive economic value. Secondly, a longer observation period could help to capture the long-term effects of implementing a green strategy, given that the benefits of sustainability are generally not reflected in short-term market performance. Thirdly, expanding the sample to include other sectors, such as manufacturing, energy and transportation, could provide a more comprehensive comparison of the role of GCA in increasing company value in industries with higher emissions and environmental risks.

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