The Effect of ESG Disclosure, Investment Decision, Funding Decision, and Dividend Policy on Firm Value (Study on SRI-KEHATI Index Period 2019-2022)

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Abstract

New companies that continue to grow every time require all companies, both existing and new companies to maintain their existence and compete to be the most superior through increasing firm value. The purpose of this research is to analyze the effect of ESG disclosure, investment decision, funding decision, and dividend policy on firm value. In this research, the population was taken from companies that have been listed on SRI-KEHATI index on IDX in 2019-2022. This research used purposive sampling technique, total sample is 17 companies with 68 observation data from annual report and sustainability report for 4 years. This research used multiple linier regression analysis and hypothesis testing with SPSS 25 version. The result showed that simultaneously ESG disclosure, investment decision, funding decision, and dividend policy affect firm value. ESG disclosure has a significant negative effect on firm value. Investment decision has no effect on firm value. Funding decision has a significant negative effect on firm value. Dividend policy has no effect on firm value. In the future, implementation of ESG over a long term is able to provide great benefits for the company, so the value of the company can be increase and the risks that may be suffered by the company due to poor environmental, social and governance management can be reduced. Based on the result, for further research it would be better to use more period, so the development of ESG disclosure by the companies can be seen over a longer period of time.

Keyword: ESG Disclosure; Investment Decision; Funding Decision; Dividend Policy; Firm Value

1. Introduction

The number of companies continues to grow every year. In 2023, Indonesian Stock Exchange recorded more than 900 companies and 79 new shares listed. This number is the highest achievement in the record of capital market in Indonesia. The increasing quantity of new companies is a demand for every company to maintain their existence and compete to be the most superior. Consumers and investors have an important role as stakeholders in achieving company goals. Companies will generally make efforts that can increase the company value or wealth to achieve the company's goal of maximizing profits (Agustini, 2018). In addition, the company's normative purpose is to maximize the prosperity of shareholder which is achieved through increasing company value (Mulyanti, 2017). For companies listed on the Indonesia Stock Exchange, high company value is reflected in high stock prices, and stock price is a reflection of dividend policies, and decisions of investment and company's funding (Marantika, 2012). Bahrun and Firmansyah (2020) also mention financial factors that can affect firm value are investment decisions, funding decisions, and dividend policies.

The factors that can affect firm value, first is investment decisions. Investment decisions are made through capital investment for future profits. Companies that make investment decisions appropriately will be able to improve their performance and will also have an impact on increasing firm value (Bahrun & Firmansyah, 2020). Investment decisions require three considerations, the rate of return, the risk level, and the availability of funds. The higher the rate of return will be followed by the level of risk. The second factor is funding decisions. Company funding can be obtained from internal and external companies. based on pecking order theory, generally companies will use internal funding, debt funding as a second choice, and new equity issuance as the last choice of funding because it has a higher risk than others (Bahrun & Firmansyah, 2020). The next factor that can affect firm value is dividend policy. In distributing dividends, the company must consider its ability to save for its own internal funds and to pay dividends in the next period in the long term. This action is taken to maintain investor confidence and ensure they will get dividends in the following periods (Bahrun & Firmansyah, 2020).

The company's efforts to increase company value are currently not enough only from financial factors but also need to pay attention to non-financial factors, one of which is through disclosure of corporate sustainability. This is supported by the KPMG 2022 sustainability report survey data which shows that globally 96% of G250 and N100 companies have reported sustainability (KPMG, 2022). In addition, in the national scope, the disclosure of climate-related risks and opportunities recorded in sustainability reports has increased from 77% in 2021 to 88% in 2022 (PwC, 2023). In terms of encouraging sustainability, OJK has issued regulations for disclosure of sustainability reports stipulated in Financial Services Authority Regulation Number 51/POJK.03/2017 that Financial Services Institutions, Issuers, and public companies are needed to report and implement sustainable finance in running their business.

The Indonesia Stock Exchange (IDX) as a party that provides and organizes services and systems for buying and selling securities in the capital market has 44 stock indices (Idx.com, 2023). The IDX provides ESG-based stock index information consisting of four indices, namely the SRI-KEHATI index, IDX ESG Leader, IDX ESG Sector Leader, and ESG Quality 45. ESG-based stock indices have performed quite well in recent years, data from the

Biodiversity Foundation (KEHATI) in collaboration with the IDX in the green investment program shows superior stock performance when compared to the LQ45 stock index, and the SRI-KEHATI index which is superior to the JCI stock index (Kehati.or.id, 2023).

SRI-KEHATI index when compared to IHSG and LQ45 has superior performance, even in 2020 the SRI-KEHATI stock index recovered faster than the LQ45 stock index (Ernest & Young, 2022). From this, it can be concluded that ESG stocks are performing well and have promising prospects in the future. The pandemic has raised awareness of the importance of ESG issues, thus increasing the demand for sustainable investments. Therefore, this research aims to analyze the effect of ESG disclosure, investment decision, funding decision, and dividend policy (study on the SRI-KEHATI index 2019-2022 period).

2. Literature Review

2.1 Firm Value

Firm value reflects how much a company is valued so that people are want to buy the company’s shares price that exceeds its book value (Maria & Birawan, 2022). Increasing company value is considered an achievement for the achievement of the goals and desires of the company owner, this is because increasing company value can increase the prosperity of company owners through increased wealth (Fauziah & Asandimitra, 2018). Several financial factors that affect firm value are investment decisions, funding decisions, and dividend policies (Fauziah & Asandimitra, 2018). According to Xaviera and Rahman (2023), firm value can be measured using Tobins’Q.

$$Tobin's\ Q = \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Liabilities}{Total\ Book\ Value\ of\ Asset}$$

2.2 ESG Disclosure

ESG disclosure is a tool used to calculate the development of disclosure of the impact of company’s environmental, social, and governance performance (Ghazali & Zulmaita, 2020). Companies that make ESG disclosures will generally issue their disclosure reports in sustainability reports. In preparing sustainability reports, there are many preparation standards consisting of disclosure indicators. However, GRI and SDGs are the most widely used standards in sustainability reports (PwC, 2023). The calculation of the GRI standard is carried out a dummy variable, the disclosed indicators are given a value of 1 and the undisclosed indicators are given a value of 0. According to Ghazali and Zulmaita (2020), ESG disclosure can be calculated using the ESG formula below.

$$ESGj = \frac{Sum\ of\ company'disclosure\ item}{Total\ of\ GRI's\ disclosure\ standard\ item}$$

2.3 Investment Decision

According to Mubarokah and Indah (2021), an investment decision is a company's decision to invest its capital for a long period in the hope that it will benefit the company in the future. Investment decisions aim to benefit to control the risk level in the future. Investments made by companies consist of two term. Short-term investment decisions involve short-term assets, such as cash, accounts receivable, inventory, and short-term securities, while long-term investment decisions involve the purchase of long-term assets, such as replacing fixed assets of the company and adding to the company's assets and capacity (Sarif & Suprajitno, 2021). According to Maria and Birawan (2022), investment decisions can be calculated using the Total Asset Growth (TAG) ratio.

$$TAG = \frac{Total\ Asset - Total\ Asset\ n-1}{Total\ Asset\ n-1}$$

2.4 Funding Decision

Funding decisions reflect how a company obtains funds to fund its operation including investment financing. A company needs to consider the benefits and costs in determining the right combination of internal funding sources from own capital and external debt (Indriyani, 2017). Inappropriate combinations in determining funding sources that use a lot of debt may complicate the company's operations because it can increase the company's burden. On the other hand, using debt can help the company control its cash so that it can make the company have more value. According to Maria and Birawan (2022), funding decisions can be calculated with the formula of Debt to Equity Ratio (DER).

$$DER = \frac{Total\ Liability}{Total\ Equity} \times 100\%$$

2.5 Dividend Policy

According to Adiputra and Hermawan (2020), dividend policy is the company's profit distributed to shareholders based on many shares owned. Sarif and Suprajitno (2021) said that dividend policy decides about the company's profit or profit that will be allocated for dividend distribution to shareholders or reinvested in the company in the form of retained earnings. Optimal dividend distribution is one of the efforts to increase firm value, but the company's internal financing will be reduced, and if the dividend policy is used as retained earnings, this will make it easier for companies to raise funding internally (Hariyanur et al., 2022). According to Susanto and Tirok (2013), dividend policy can be calculated using Dividen Payout Ratio (DPR).

$$DPR = \frac{Dividend\ per\ share}{Earnings\ per\ share} \times 100\%$$

3. Material and Method

3.1 Data Collection, Population and Sample

This research used secondary data sources, the annual and sustainability reports of the SRI-KEHATI index companies, each of which obtained from the IDX website and the website of each company included in the research sample. This research population is all companies that have been listed in the SRI-KEHATI index on IDX for 2019-2022 period. This research used purposive sampling and retrieved a sample of 17 companies with a four-year research period from 2019 to 2022, 68 observation data were obtained.

3.2 Variable Operationalization

Variable	Measurement
Firm Value	$Tobin's\ Q = \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Liabilities}{Total\ Book\ Value\ of\ Asset}$
ESG Disclosure	$ESGj = \frac{Sum\ of\ company'\ disclosure\ item}{Total\ of\ GRI's\ disclosure\ standard\ item}$
Investment Decision	$TAG = \frac{Total\ Asset - Total\ Asset\ n-1}{Total\ Asset\ n-1}$
Funding Decision	$DER = \frac{Total\ Liability}{Total\ Equity}$
Dividend Policy	$DPR = \frac{Dividend\ per\ share}{Earnings\ per\ share}$

Source: Data processed by the author (2024)

3.3 Data Analysis

Data analysis is an activity performed after all data have been collected from respondents or other data sources. In this study, descriptive statistical analysis used as data analysis technique. Descriptive statistics are used to analyze data that has been collected by describing or providing an overview without intending to make general conclusions (Sugiyono, 2013). In this research, the method used classic assumption test, followed by multiple linear regression analysis, and hypothesis testing using SPSS 25 version.

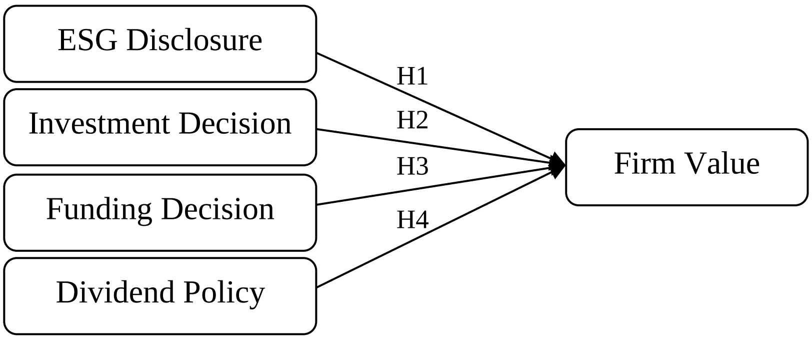

Figure 1. Research Model

4. Result

Table 1. t Table

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	B		
(Const)	2.907	0.468		6.218	0.000
ESGD	-1.749	0.819	-0.253	-2.137	0.037
TAG	1.070	0.849	0.149	1.261	0.213
DER	-0.868	0.240	-0.423	-3.607	0.001
DPR	0.131	0.112	0.137	1.165	0.249

Source: SPSS output, processed by the author (2024)

Table 2. F Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.722	4	2.930	4.764	$.002^b$
Residual	33.834	55	0.615		
Total	45.555	59			

Source: SPSS output, processed by the author (2024)

5. Discussion

The result of the F test showed that, the sig. value is 0.002 < 0,05. From the basis of hypothesis decision from F test, this result showed that ESG disclosure, investment decision, funding decision, and dividend policy have a simultaneous effect on firm value.

a. The t test results on the ESGD in table 1 showed that the sig. value is 0.037 <0.05. It means that the ESG disclosure has an effect on firm value. This research uses a short period of four years, so that in its application ESG may still not be able to feel the benefits and only be seen in the implementation of ESG benefits and can only be seen from the cost. Many investors or policymakers do not understand the importance of ESG, because it is considered expensive and unprofitable. and not profitable so that ESG disclosure is also considered unnecessary and even burdensome (Prabawati & Rahmawati, 2022). For companies, financing that is used as ESG disclosure, perhaps could have been allocated to more profitable investment projects that are more profitable so that this may interfere with the sensitivity of investments to the company's growth prospects (Bhandari & Javakhadze, 2017).

b. The t test results on the TAG in table 1 showed that the sig. value is 0.213> 0.05. It means that the investment decision variable has no effect on firm value. The higher TAG value showed that the company has big assets or great wealth so that has good prospects in the future (Juwita et al., 2021). However, the sample used in this research has a fairly low average low average, which is 6% and the results show that TAG does not contribute to increase in firm value. Total assets consist of liabilities (debt) and equity. This may be one of the reasons why the composition asset growth of the company is considered not so dangerous for stakeholders so that it does not affect the value of the company stakeholders so that it does not have an influence on firm value (Arizki et al., 2019). In addition, investors may prefer funding through debt rather than investment to increase firm value because investment affects uncertain future profits so that investment decision has no effect on firm value (Lumbangaol et al., 2023).

c. The t test results on the DER in table 1 showed that the sig. value is 0.001 <0.05. It means that the funding decision variable has an effect on firm value. The higher DER value, the lower company value. The average value of DER in this research is quite high, 68%, which means that the company's funding mostly obtained from debt. The greater company’s debt, the higher risk of debt or the risk of default that is borne by the company (Apriyanto et al., 2021). The increase in funding decisions that will drive down firm value occurs because of the company's heavy dependence on debt. From this debt, it will increase company risk and even reduce stakeholder confidence, and also show the health condition and prospects of company's to survive in the next which is getting smaller (Arizki et al., 2019).

d. The t test results on the DPR in table 1 showed that the sig. value is 0.249> 0.05. It means that the dividend policy variable has no effect on firm value. The average value of DPR from the descriptive statistical test results descriptive statistics in this research amounted to 48%. Although the average DER value is quite high, it has not been able to provide signals to shareholders. This shows that shareholders may only want to obtain capital gains or short-term profits, they also consider that the benefits obtained from capital gains will be more profitable in the future when compared to the benefits of current dividends (Murniati et al., 2019). In addition, some shareholders prefer to reinvest the profits they get for the company in the hope that the profit of the company can increase, so that it can provide opportunities for the company to develop and expand its operations and attract more investors (Murniati et al., 2019).

6. Conclusion, Implication, and Recommendation

6.1 Conclusion and Implication

The conclusions from the results of the research that has been done are as follows:

a. ESG disclosure has a negative effect on firm value. ESG disclosure in addition to being a form of concern for sustainability is also a form of long-term investment that can be made by companies, this is because ESG disclosures that are managed in the long term can prevent companies from bankruptcy due to poor ESG management.

b. Investment decision has no effect on firm value. Investment decisions are needed to generate profits or funds in the future to finance the company's short and long term needs, another reason is that investment decisions are also used as a consideration step in establishing the company's asset needs.

c. Funding decision has a negative effect on firm value. For companies with minimum profitability, debt can encourage increased production which also increases the productivity of the company, but for companies with a high scale of production and profitability, debt can actually increase the risk associated with financial problems that can reduce company value. So in this case the company must maintain an optimal composition of its funding sources, both internal and external, in order to improve its performance and ultimately increase the value of company.

d. Dividend policy has no effect on firm value. Dividend distribution with high quantity can increase investor profits and the company will have low retained earnings so that the company's internal source of funds is getting smaller, and low dividend distribution will increase the company's internal funds (Kulo et al., 2023). So in this case, the company must maintain the composition of its income for retained earnings as internal funds and dividend policy to be distributed to shareholders.

6.2 Recommendation

Future researchers with ESG disclosure variables are expected to use a longer research period. In addition, future researchers are expected to use different proxies from the three measurements, namely ESG disclosure, Total Asset Growth, Debt Equity Ratio, and Dividend Payout Ratio.

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