



The Effect of Environmental Social Governance Disclosure, Investment Opportunity Set, and Profitability on Firm Value

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ABSTRAK

The aim of this research is to empirically investigate whether the disclosure of environmental, social, and governance (ESG) factors, along with investment opportunity sets and profitability, contribute positively to firm value. The study focuses on companies listed in both the ESG Leaders Index and the Sri Kehati Index. Utilizing a quantitative approach, secondary data from the Indonesia Stock Exchange database were analyzed, encompassing a total of 78 observations spanning the period from 2020 to 2023. Statistical analysis was conducted using multiple linear regression. The findings indicate that environmental and governance disclosures, as well as profitability, positively influence firm value. However, social disclosure and investment opportunity sets were found to have no significant positive effect on firm value.

INTRODUCTION

As the business landscape evolves, investors' evaluation of companies extends beyond financial metrics to encompass non-financial disclosures provided by the companies themselves (Octavia et al., 2023). Amidst the pursuit of business continuity, companies harbor both short-term and long-term objectives. In the short term, companies aim to maximize profits by efficiently utilizing existing resources. Conversely, the long-term trajectory centers on the overarching goal of optimizing firm value to deliver prosperity to shareholders (Paulus et al., 2022). This holistic approach acknowledges the significance of not only financial performance but also strategic foresight and sustainable practices in shaping investors' perceptions and ultimately, the company's viability and success in the market.

Some companies are not successful in increasing the firm value, which is caused by the effect of various factors. One is environmental social governance disclosure, which is considered capable of effecting firm value. According to information from McKinsey's 2019 Global Survey on "Environmental Social Governance," programs (McKinsey & Company, 2020) has reported that the implementation of ESG activities can create value for companies and their shareholders. Companies have not fully implemented the principles of ESG implementation, especially in emerging market countries. This is because ESG disclosure is still voluntary, causing a lack of sensitivity to maintaining environmental balance and paying attention to social issues and corporate governance.

For developing countries, mandatory rules have a much more tangible impact than voluntary rules (Lindrianasari et al., 2018). Furthermore, in Indonesia, the application of ESG has not been running optimally because there are still many companies that have not been able to apply the concept of sustainability or disclose ESG information to the public domain. The assertion is substantiated by findings from the Indonesia Business Council for Sustainable Development (IBCSD) survey conducted in 2021. According to the survey, Indonesia's Environmental, Social, and Governance (ESG) disclosure index was positioned at the 36th spot among 47 global capital markets for the period of March 2021 (Investor.id, 2021). This ranking underscores the country's standing in terms of ESG disclosure practices within the global arena, reflecting the growing emphasis placed on sustainability and responsible corporate behavior in contemporary business landscapes.

In addition to ESG disclosure, another factor that can affect firm value is the investment opportunity set. Companies that are able to develop by determining opportunities in the right investment choices can attract investors because the right investment choices have a direct impact on their growth potential and return on investment. Investor interest in companies that make the right investment choices can be seen in the increase in stock price movements. Companies can make the right investment choices through sustainable investment. The form of sustainable investment can be used as a set of opportunities for companies to make investments because the focus of this investment lies in future investment opportunities. Companies that are able to make the right decisions in the investment options available are able to produce

optimal performance and better investment returns in the long run (Oktaria & Alexandro, 2020). Because the greater the investment opportunity set, so the higher the firm value (Alam Afridi et al., 2022).

The next factor that can affect firm value is profitability. Until now, corporate profitability has been a central issue for shareholders and stakeholders. This is because investors are interested in companies that show good profitability prospects. Companies that have strong financial performance are generally more attractive to investors. Investors who are looking for potential profits will be more interested in buying shares or investing in companies that have positive financial records. Of course, this affects the demand for the company's shares, which can increase the firm value (Budiharjo, 2019). A company is deemed to possess commendable profitability when its management adeptly leverages assets and capital to optimize firm value. Notably, the integration of environmental, social, and governance (ESG) principles has been identified as a catalyst for enhancing profitability. According to findings from a survey conducted by the Indonesia Stock Exchange (IDX), it has been highlighted that the adoption of ESG practices can bolster a company's operational performance. This assertion is underscored by the survey's revelation that a significant 88% of companies exhibit a positive correlation between their operational performance and the effective implementation of ESG initiatives (Berita Satu, 2021). Such empirical evidence emphasizes the instrumental role of ESG frameworks in driving operational efficiency and, consequently, bolstering overall profitability for companies operating within contemporary business landscapes.

LITERATURE REVIEW

Grand Theory

The study employs three prominent theories to analyze corporate behavior and decision-making processes in relation to sustainability reporting. Firstly, Signal Theory, as elucidated by Godfrey et al. (2010), underscores the significance of information conveyed by companies in influencing investor decisions. This theory highlights how companies strategically communicate their commitment to sustainability through reporting practices to signal their financial stability and future prospects to investors. Secondly, Legitimacy Theory, as proposed by Roberts (1992), posits that companies face growing pressure to demonstrate their societal and environmental responsibilities to maintain legitimacy in the eyes of stakeholders. This theory emphasizes the importance of companies aligning their actions with societal expectations to uphold their legitimacy and reputation. Finally, Stakeholder Theory, as conceptualized by Freeman (1984), emphasizes the need for companies to balance the interests of all stakeholders in their operational activities.

This theoretical framework advocates for companies to take into account the expectations and interests of diverse stakeholders such as consumers, employees, communities, and investors when making decisions, thereby fostering long-term sustainability and prosperity. By amalgamating these theories, the study endeavors to offer a holistic comprehension of the motivators and repercussions of sustainability reporting endeavors within

corporate contexts. Through this integrative approach, the research aims to elucidate the multifaceted dynamics inherent in sustainability reporting practices, shedding light on their significance and impact on organizational performance and stakeholder relations.

Environmental Social Governance Disclosure

ESG disclosure serves as a pivotal indicator that facilitates the assessment and evaluation of a company's performance, offering insights into the influence of its environmental, social, and governance practices on operational implementations (Ningwati et al., 2022). This disclosure provides stakeholders with valuable information regarding the company's commitment to sustainability, ethical conduct, and responsible governance, thereby enabling informed decision-making and fostering transparency and accountability within the organization.

Investment Opportunity Set

Investment opportunity set refers to a critical metric utilized in investment decision-making, encompassing a conglomerate of assets owned by the company (Myers, 1977). This indicator serves as a comprehensive evaluation tool, enabling stakeholders to gauge the breadth and depth of investment prospects available to the company. By assessing the investment opportunity set, investors can gain insights into the company's potential for future growth, expansion, and profitability, thereby informing their investment strategies and decisions.

Profitability

Profitability is an essential measure reflecting a company's success in generating profits within a specific timeframe and serves as a pivotal indicator of the company's financial stability (Sutrisno, 2009). This metric provides valuable insights into the company's ability to effectively manage its resources, generate revenue, and control expenses to ensure sustainable financial performance. A company's profitability not only showcases its operational efficiency but also influences investor confidence and market perception, ultimately impacting its long-term viability and competitiveness in the business landscape.

Firm Value

According to Gamayuni (2015), firm value represents the monetary worth that would be required to acquire the company in the event of a takeover. This concept encapsulates the comprehensive assessment of the company's assets, liabilities, operations, and potential future earnings, providing a holistic perspective on its overall value in the market. Firm value is a crucial metric for investors, analysts, and stakeholders, serving as a key determinant of the company's attractiveness for potential acquirers or investors. It reflects the perceived worth of the company's business activities and its potential for generating returns, thereby influencing strategic decisions and investment evaluations in the corporate landscape.

The Effect of Environmental Disclosure on Firm Value

Legitimacy theory posits that companies are obligated to demonstrate their commitment to addressing environmental issues, thereby enhancing their legitimacy and reputation within society. By engaging in environmentally responsible practices, companies fulfill their social responsibility and contribute to improving their public image. Through the implementation of Environmental, Social, and Governance (ESG) principles, particularly prioritizing eco-friendly initiatives, companies can foster a sustainable environment, which in turn bolsters their long-term viability. Consequently, this positive environmental stewardship is expected to translate into enhanced firm performance, including an increase in share price.

Previous studies by Aboud & Diab (2018), Constantinescu et al. (2021), Melinda & Wardhani (2020), and Yordudom & Suttipun (2020) have corroborated this notion, revealing a positive association between environmental disclosure and firm value. Drawing from these findings and the theoretical underpinnings of the relationship between variables examined, the first hypothesis posited in this study is:

H1: Environmental Disclosure Has a Positive Effect on Firm Value

The Effect of Social Disclosure on Firm Value

Social disclosure, as manifested in sustainability reports, serves as a mechanism through which companies can fulfill their societal obligations and enhance their corporate standing. Within the framework of corporate social responsibility (CSR) disclosure, legitimacy theory emerges as a pertinent concept, suggesting that social disclosure practices contribute to the attainment of legitimacy for companies. By demonstrating their commitment to social responsibility, firms enhance their credibility and appeal to investors, leading to potential stock price appreciation and bolstering their position in the capital market.

Moreover, from the perspective of stakeholder theory, corporate success and sustainability hinge not solely on profit maximization but also on the harmonization of stakeholder interests. Companies that prioritize stakeholder engagement and address their concerns tend to foster stronger relationships and long-term viability. Research exploring the impact of social disclosure on firm value, conducted by Aboud & Diab (2018), Constantinescu et al. (2021), Melinda & Wardhani (2020), and Yordudom & Suttipun (2020), has consistently demonstrated a positive correlation between social disclosure and firm value. Building upon the insights gleaned from prior research and the theoretical frameworks informing the relationship between variables, the second hypothesis posited in this study is:

H2: Social Disclosure Has a Positive Effect on Firm Value

The Effect of Governance Disclosure on Firm Value

The incorporation of governance disclosure practices is widely acknowledged for its potential to enhance firm value by fostering transparency in corporate operations. By providing comprehensive and accurate information about the company's management processes, governance disclosure facilitates

investors' access to vital insights into the organization's functioning. This transparency not only enables investors to make more informed decisions but also cultivates trust in the company's operations and management practices.

Aligned with stakeholder theory, governance disclosure initiatives contribute to enhancing management efficiency and fostering robust relationships with various stakeholders. By establishing open communication channels and demonstrating accountability, companies can instill confidence among investors and stakeholders alike. Consequently, investors exhibit a heightened interest in companies that uphold principles of good governance, viewing them as reliable investment prospects with promising growth trajectories. Empirical evidence from previous research endeavors conducted by Constantinescu et al. (2021), Melinda & Wardhani (2020), and Aboud & Diab (2018) consistently underscores the positive impact of governance disclosure on firm value. Building upon these findings and the theoretical underpinnings delineated above, the third hypothesis posited in this study is:

H3: Governance Disclosure Has a Positive Effect on Firm Value

The Effect of Investment Opportunity Set on Firm Value

Efficient management of investment opportunities plays a pivotal role in fostering growth, profitability, and bolstering investor confidence. Companies equipped with well-defined investment plans and clear growth strategies often attract investors seeking lucrative prospects. According to signal theory, sustained growth and expansion serve as positive indicators for investors, signaling promising future prospects. Consequently, companies demonstrating substantial growth potential and robust investment opportunities tend to garner favorable attention from investors.

In line with signal theory, companies with high Investment Opportunity Set (IOS) values are perceived as having favorable growth trajectories, thus eliciting positive responses from investors. By showcasing promising investment opportunities, such as sustainable investment options, companies can further bolster investor confidence and demonstrate their commitment to long-term growth. Previous research endeavors conducted by Alam Afridi et al. (2022), Chabachib et al. (2020), and Frederica (2019) have consistently demonstrated the positive impact of investment opportunity set on firm value. Drawing upon the theoretical framework elucidated above and the empirical findings from prior research, the fourth hypothesis posited in this study is:

H4: Investment Opportunity Set Has a Positive Effect on Firm Value

The Effect of Profitability on Firm Value

Companies are tasked with meeting the diverse needs and enhancing the welfare of stakeholders, including shareholders, communities, and other relevant parties, as advocated by stakeholder theory. A company's ability to generate robust profitability plays a crucial role in attracting investor interest and fostering long-term sustainability. High profitability signifies efficient operational management, ensuring adequate liquidity to meet obligations, fostering strong growth potential, facilitating dividend payouts to shareholders, and fortifying durability and long-term growth prospects. Aligned with the researcher's perspective, signal theory posits that high profitability serves as a

favorable signal to investors, signaling promising prospects for the company. Consequently, investors are inclined to respond positively to such signals, thereby enhancing the firm's overall value. Previous studies conducted by Dang & Hoang (2019), Paramitha (2020), and Jihadi et al. (2021) have consistently underscored the positive correlation between profitability and firm value. In light of the foregoing discussion, the fifth hypothesis posited in this study is:

H5: Profitability Has a Positive Effect on Firm Value

METHODOLOGY

This research is a quantitative study using secondary data from the company's financial statements and sustainability reports. The analysis method used in this research is multiple regression analysis with the help of the SPSS 20 application. The population used is all companies whose shares are listed in the ESG Leaders Index (IDXESGL) and the Sri Kehati Index during the 2020-2023 period. A sampling of companies to be studied, selected based on the purposive sampling method, with criteria: companies consistently listed on the ESG Leaders Index and Sri Kehati Index in major evaluations during the 2020-2023 period, companies that consecutively publish sustainability report reports and companies that have positive equity value and do not experience losses. From the results of the sample selection, 26 companies were obtained with the number of observations for three years, so the final sample in this study amounted to 78 samples. The author uses five independent variables (environmental disclosure, social disclosure, governance disclosure, investment opportunity set, and profitability) and one dependent variable (firm value).

RESULT

T-Test result

Table 1. T-statistic test

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
1 (Constant)	.213	.142		.139
ED	.072	.032	.642	.026
SD	.006	.129	.005	.960
GD	.022	.007	.380	.004
IOS	.001	.002	.017	.889
ROE	.013	.004	.806	.003

a. Dependent Variable: TOBINS'Q: Firm Value

b. Predictors: (Constant), ROE: Profitability, SD: Social Disclosure, IOS: Investment Opportunity Set, GD: Governance Disclosure, ED: Environmental Disclosure

The T-statistical test plays a pivotal role in evaluating the significance of individual independent variables in elucidating the variance of the dependent variable. According to Ghozali (2019), this test is conducted using a significance level of 5% (0.05), serving as a benchmark for assessing the relationship between variables. The criteria for interpretation are straightforward: if the significance value falls below 0.05, the null hypothesis (Ho) is upheld, indicating a significant effect between the independent and dependent variables. Conversely, if the significance value surpasses 0.05, the null

hypothesis is refuted, suggesting that the independent variable lacks a significant impact on the dependent variable. This analytical approach furnishes researchers with a systematic framework for discerning the statistical significance of individual variables within a regression model, thereby facilitating robust analysis and interpretation of findings.

DISCUSSION

Environmental Disclosure Has a Positive Effect on Firm Value

Based on the t-test outcomes detailed in Table 1, environmental disclosure manifests a coefficient value of 0.072, coupled with a significance level of 0.026, which falls below the threshold of 0.05. Consequently, this study lends support to H1, asserting that environmental disclosure exerts a positive influence on firm value. These findings align with prior investigations conducted by scholars such as Aboud & Diab (2018), Constantinescu et al. (2021), Melinda & Wardhani (2020), and Yordudom & Suttipun (2020). The study's results underscore the significance of robust environmental disclosure practices, not merely as a means to bolster sustainable business strategies but also as a mechanism to enhance the company's operational resilience. By divulging pertinent environmental information, companies convey a positive signal that transcends profit maximization, illustrating their commitment to environmental stewardship and sustainability. Moreover, these findings contribute substantially to elucidating the implications of legitimacy theory within the corporate domain. Environmental disclosure emerges as a pivotal tool for companies seeking to bolster their legitimacy in the eyes of society, thereby reinforcing their societal acceptance and trust.

Social Disclosure Has a Positive Effect on Firm Value

The t-test findings delineated in Table 1 reveal that social disclosure yields a coefficient value of 0.006 alongside a significance level of 0.960, surpassing the conventional threshold of 0.05. Consequently, this study fails to lend support to H2, indicating that social disclosure does not exert a discernible effect on firm value. In contrast to the findings of previous studies conducted by Aboud & Diab (2018), Constantinescu et al. (2021), Melinda & Wardhani (2020), and Yordudom & Suttipun (2020), the results of this study diverge, suggesting a lack of positive correlation between social disclosure and firm value.

This deviation from prior research underscores the complexity and contextuality inherent in the relationship between social disclosure and firm value. Notably, the utilization of measurement indicators derived from developed Western countries, as adopted in the Bumi Global Karbon index, may not fully capture the nuanced social dynamics prevalent in developing nations like Indonesia. Cultural disparities, such as a propensity towards closedness or unfamiliarity with transparency concepts, could potentially impede the effective implementation of social disclosure practices. Consequently, the absence of a positive effect observed in this study underscores the need for culturally sensitive and context-specific approaches to social disclosure within the Indonesian corporate landscape.

Governance Disclosure Has a Positive Effect on Firm Value

The analysis presented in Table 1 indicates that governance disclosure yields a coefficient value of 0.022 alongside a significance level of 0.004, which is below the conventional threshold of 0.05. Consequently, this study offers support for H3, affirming that governance disclosure exerts a positive influence on firm value. The findings underscore the significance of transparent governance practices in enhancing the reputation and performance of companies.

Aligned with stakeholder theory, robust governance disclosure serves as a mechanism for meeting the information requirements of various stakeholders, including investors. By fostering transparency and accountability, companies cultivate trust among stakeholders, which, in turn, facilitates access to capital and investment opportunities. This heightened investor confidence not only bolsters the company's financial standing but also contributes to the overall enhancement of firm value. The outcomes of this study resonate with prior research by Constantinescu et al. (2021), Melinda & Wardhani (2020), and Aboud & Diab (2018), which have similarly documented the positive impact of governance disclosure on firm value. These findings collectively underscore the importance of governance transparency as a pivotal determinant of corporate success and investor perception.

Investment Opportunity Set Has a Positive Effect on Firm Value

The analysis presented in Table 1 reveals that the investment opportunity set yields a coefficient value of 0.001, accompanied by a significance level of 0.889, which exceeds the conventional threshold of 0.05. Consequently, this study does not provide support for H4, indicating that the investment opportunity set does not have a positive effect on firm value. This finding diverges from prior research conducted by Alam Afridi et al. (2022), Chabachib et al. (2020), and Frederica (2019), which have demonstrated a positive association between the investment opportunity set and firm value. Moreover, the findings of this study fail to corroborate the tenets of signal theory, which postulates that companies exhibiting high levels of investment opportunity set can attract investors by providing positive signals regarding future growth prospects. Despite the theoretical underpinnings, the empirical results from the sample of companies examined in this study suggest otherwise.

An important consideration arises from the methodological approach utilized in calculating the investment opportunity set variable. The use of the capital expenditure to book value of assets (CAPBVA) ratio may not fully capture the comprehensive spectrum of investment opportunities available to companies, particularly in terms of their ability to effectively utilize additional capital. This limitation is evidenced by the presence of several companies within the sample exhibiting low investment opportunity set values, despite potential avenues for investment and growth. These findings underscore the complexity inherent in assessing the impact of investment opportunity sets on firm value and highlight the importance of employing robust methodologies to measure and analyze such variables accurately. Further research exploring alternative metrics and methodologies may provide deeper insights into the relationship between investment opportunities and firm value.

Profitability Has a Positive Effect on Firm Value

The statistical analysis depicted in Table 1 unveils that the profitability variable yields a coefficient value of 0.013, coupled with a significance level of 0.003, which falls below the conventional threshold of 0.05. Consequently, this study lends support to H5, asserting that profitability exerts a positive effect on firm value. These findings are consistent with the outcomes of prior studies conducted by Dang & Hoang (2019), Paramitha (2020), and Jihadi et al. (2021), which have similarly demonstrated a positive relationship between profitability and firm value.

The implications of these findings are profound, suggesting that companies endowed with robust profitability profiles are likely to elicit favorable responses from potential investors, thus influencing their investment decisions. This phenomenon is manifested in the appreciation of the company's market value, as evidenced by the upward trajectory of its stock price. Moreover, the outcomes of this study align with the premises of signal theory, which posits that strong profitability serves as a compelling signal to investors. In accordance with signal theory, favorable profitability metrics convey positive signals to investors, thereby enhancing their confidence in the company's prospects and bolstering its firm value. Overall, these findings underscore the pivotal role of profitability in shaping investor perceptions and influencing firm value. By elucidating the relationship between profitability and firm value, this study contributes to a deeper understanding of the mechanisms underpinning investor decision-making processes and underscores the importance of profitability as a determinant of firm value.

CONCLUSION AND RECOMMENDATION

This research endeavors to provide empirical insights into the influence of environmental disclosure, social disclosure, governance disclosure, investment opportunity set, and profitability on firm value. Upon analyzing the data, it is deduced that environmental disclosure, governance disclosure, and profitability exhibit a positive impact on firm value. Conversely, social disclosure and investment opportunity set do not demonstrate a significant effect on firm value.

It is essential to note that the scope of this study is confined to companies listed in the ESG Leaders Index (IDXESGL) and the Sri Kehati Index for the period spanning 2020 to 2023. Consequently, the generalizability of the findings may be limited to this specific subset of companies, and caution should be exercised when extrapolating the results to the broader market. Additionally, the utilization of the Bumi Global Karbon Index for measuring Environmental, Social, and Governance Disclosures may not provide a comprehensive depiction of all disclosure indicators, potentially overlooking critical aspects of disclosure practices. Furthermore, it is imperative to acknowledge the research's limitations, including the narrow focus on specific variables that only encompass a fraction of the myriad factors influencing firm value. Future studies could benefit from expanding the scope of analysis to encompass a broader range of variables and incorporating diverse methodologies to provide a more comprehensive understanding of the dynamics shaping firm value.

ADVANCED RESEARCH

Future research should expand the sample, add a longer observation period, and involve additional variables or other variables related to factors that can affect firm value holistically in order to produce more accurate research results. Future research is also expected to choose the right environmental, social, governance (ESG) disclosure measurement ratio and in accordance with the context of the country.

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