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Empirical Evidence of ESG Disclosure's Impact on Corporate Investment Decision in Indonesia

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ABSTRACT

The purpose of this study is to investigate the impact of environmental, social, and governance (ESG) disclosure on corporate investment decisions. Data were collected from annual reports of firms listed in Indonesia Stock Exchange between 2015 and 2020 (378 firm-year observations). Using Ordinary Least Square (OLS) and fixed effect estimation, this study found that the dimension of ESG practices positively affects corporate investment decisions. In addition, the presidential election periods increase the effectiveness of corporate investment decisions. The study results reveal that uncertainty in the economic and business environment over the impact of general elections increases the company's ability to generate higher investments. This study contributes to the company strategic alignment to justify management about investment prioritize in the stakeholder wealth through ESG disclosure.

Bukti Empiris Dampak Pengungkapan LST terhadap Keputusan Investasi Perusahaan di Indonesia

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh pengungkapan lingkungan, sosial, dan tata Kelola (LST) berdampak pada keputusan investasi perusahaan. Data didapatkan dari laporan tahunan perusahaan yang terdaftar pada Bursa Efek Indonesia selama tahun 2015 s.d. 2020 (378 observasi-tahun-perusahaan). Dengan menggunakan Ordinary Least Square (OLS) dan estimasi efek tetap, penelitian ini menemukan bahwa dimensi praktik LST berpengaruh positif terhadap keputusan investasi perusahaan. Selain itu, periode pemilihan presiden meningkatkan efektivitas keputusan investasi perusahaan. Selanjutnya, penulis mengungkapkan bahwa ketidakpastian lingkungan ekonomi dan bisnis atas dampak pemilihan umum meningkatkan kemampuan perusahaan untuk menghasilkan investasi yang lebih tinggi. Penelitian ini berkontribusi pada penyelarasan strategis perusahaan untuk membenarkan manajemen tentang prioritas investasi pada kekayaan pemangku kepentingan melalui pengungkapan ESG.

1. Introduction

The domain of accounting and finance has progressively emphasized facilitating effective capital allocation, as emphasized by Kothari et al. (2010). The body of literature in this field primarily revolves around the significance of capital allocation choices and accounting (Badertscher et al., 2013; Balakrishnan et al., 2014; Beatty et al., 2010; McNichols & Stubben, 2008; Shroff et al., 2014). Nonetheless, consistently measuring efficient capital allocation, especially concerning sustainability, remains a formidable challenge (Keig et al., 2015; Aguilera & Jackson, 2011).

While the theoretical concept of efficient capital allocation implies a greater flow of capital to stakeholders (Bucaro et al., 2020), practically measuring capital flows and distinguishing between high and low-value uses poses challenges (Cowper-Smith & de Grosbois, 2011). Moreover, sustainability issues add complexity to capital allocation decisions, both within the company (Ngelo et al., 2022) and in terms of corporate investments aimed at maximizing business and capital flow (Velte, 2022; Dhar et al., 2022). Recognizing sustainability as a critical factor, companies increasingly consider it when formulating policies and meeting stakeholder expectations (Crane & Glozer, 2016; Erdiaw-Kwasie et al., 2017). However, integrating sustainability into capital allocation requires careful evaluation of both financial and non-financial aspects, making it an active research area for accounting and finance scholars.

The impact of environmental, social, and governance (ESG) factors on company performance has been extensively examined in previous studies (Dhar et al., 2022; Ratri et al., 2021; Harymawan et al., 2020; Erdiaw-Kwasie et al., 2017). ESG has been shown to enhance a company's value, improve managerial effectiveness, and potentially generate revenue (Velte, 2019; Crane & Glozer, 2016; Balakrishnan et al., 2014). The successful implementation of ESG initiatives, like any other strategic endeavor, is vital for achieving organizational goals (Andersson et al., 2022). ESG is a performance-oriented concept focused on the long-term, aiding top management in attaining organizational objectives while catering to the needs of significant stakeholders (Cappucci, 2017; McNichols & Stubben, 2008; Halbritter & Dorfleitner, 2015). Consequently, the disclosure of ESG performance and long-term sustainable targets (LST) plays a critical role in influencing company investment decisions. Nevertheless, scholars have differing opinions on ESG disclosure. Some suggest that it should primarily target top management and stakeholders (Harymawan et al., 2021; Ngelo et al., 2022; Kamaludin et al., 2022), while others argue that only a limited number of scholars are engaged in ESG matters (Erdiaw-Kwasie et al., 2017; Crane & Glozer, 2016).

Moreover, there exists a divergence of opinions within top management regarding ESG, with some viewing it as a manipulative tactic, while companies themselves are apprehensive about its impact (Jang et al., 2022; He et al., 2022). Conversely, it is crucial for top management to recognize the importance of ESG in order to cultivate trust among external investors and stakeholders. This trust, in turn, confers legitimacy upon the company's ability to adapt to future needs, not solely focused on maximizing immediate profits but also demonstrating a commitment to a long-term vision. As a result, a company's commitment to ESG initiatives plays a pivotal role in fostering sustainable investments in the company over the long haul.

While several studies have explored the correlation between ESG practices and company outcomes, the impact of such practices on investment decisions remains ambiguous. Firstly, Sulatana et al. (2018) discovered that ESG practices do not consistently lead to increased investment capacity for companies. They elucidated that other factors, such as global economic conditions, can significantly influence a company's investment decisions. Secondly, van Duuren et al. (2016) contended that investment decisions are closely tied to companies' active involvement in enforcing ESG issues. Nevertheless, in practical terms, research on the relationship between ESG and investment decisions still receives inadequate recognition. This is due to the necessity for concrete theoretical foundations and substantial empirical evidence that encompasses prolonged periods and takes global economic conditions and significant events, like presidential elections, into account. This study aims to augment the existing body of research by extending the study period and incorporating considerations of global economic conditions, along with events and the political dimension of presidential elections.

The stakeholder theory posits that enterprises can bolster their reputation and financial performance by diligently addressing the needs and interests of their stakeholders, as emphasized by Parmar et al. (2011). Specifically, companies that prioritize environmental, social, and governance

(ESG) concerns may garner the allegiance of employees and customers, thus augmenting their long-term prosperity. This perspective finds validation in the theory of good management postulated by Waddock and Graves (1997), which contends that adept strategic and managerial practices, focused on enhancing social performance, also pave the way for achieving financial triumph. Consequently, rather than being in conflict, social and financial performance can synergistically bolster one another for companies that adopt a stakeholder-oriented approach.

Our research examined a dataset of 378 firm-year observations from publicly listed non-financial companies in Indonesia during 2010 to 2020. The sample comprised 75 distinct firms, and we controlled for factors influencing previous investment choices, along with fixed effects for years and industries. Our findings offer compelling evidence that a strong commitment to environmental, social, and governance (ESG) issues leads to more effective corporate investment decisions. These outcomes support the notion that ESG adds value to companies and demonstrate the vital role of social and environmental engagement in augmenting corporate worth. Additionally, we conducted a batteray of sensitivity analyses, such as coarsened exact matching and multiple methods to address potential endogeneity and self-selection biases, and our primary results remained robust throughout.

Through a series of individual examinations, we sought to investigate the ramifications of environmental, social, and governance (ESG) engagement on investment choices while taking into account the external influence of presidential elections. Our study delved into the question of whether and how the utilization of ESG practices during periods of economic uncertainty affects the outcome of presidential elections. It has been posited that in times of economic instability, individuals and corporations might resort to manipulative maneuvers to preserve power and generate profit. Nevertheless, our research unveiled that such manipulative tactics were not correlated with the adoption of ESG practices. In fact, our findings indicated that the adoption of ESG practices did not significantly impact firms' investment decisions, regardless of economic stability. Any detrimental effects on company performance were more likely ascribed to management attitudes that did not align with ESG practices.

This paper contributes new evidence to the literature on the financial implications of high ESG involvement, specifically exploring the relationship between ESG and corporate capital allocation. Our study addresses a fundamental question in financial literature: how do ESG firms affect investment decisions? We argue that if the value-enhancing view of ESG dominates, high ESG firms should be associated with high investment decisions. Thus, corporate involvement in ESG strengthens the company's ability to make investment decisions. What sets our study apart is that we provide evidence to challenge the notion that the ESG debate is simply a manipulative practice of management and stakeholders. We find that firm involvement strongly influences investment decisions related to ESG issues, and that manipulative practices may arise due to management behaviour factors in strategic decisions. By offering insights into the relationship between ESG and corporate financial performance, we provide a new perspective on ESG-CSR studies and their potential impact on effective investment decision-making.

Furthermore, this study makes significant contributions to the existing literature in both accounting and finance domains. Firstly, this paper represents the pioneering effort to explore the correlation between ESG factors and investment decisions. While the ongoing debate about the financial consequences of economic, social, and corporate governance engagement continues (Erdiaw-Kwasie et al., 2017; Crane & Glozer, 2016; Dhar et al., 2022; Ratri et al., 2021; Harymawan et al., 2020), our study sheds further light on this unresolved puzzle. Secondly, while previous studies have highlighted the importance of factors like the quality of financial reporting (e.g., Waddock & Graves, 1997), government intervention, and state and foreign ownership (e.g., Chen et al., 2011) as significant determinants of investment efficiency, our research enriches the literature by revealing that ESG also plays a critical role in shaping investment decisions. Lastly, we build upon the foundational work of Clarkson (1995) and Hillman & Klein (2001) by emphasizing the crucial role of key stakeholders in a firm's performance. Our findings demonstrate that, among each of the ESG components, those associated with vital stakeholders have a substantial impact on enhancing investment efficiency.

The rest of this paper is structured as follows. In the subsequent section, we examine prior research concerning the factors influencing investment efficiency before introducing the primary hypotheses of our study. The third section presents our data and research methodology. Subsequently, we present the principal findings of the investigations along with the results of rigorous tests to validate their reliability. Finally, the "Conclusion" section provides the concluding remarks.

2. Literature review and hypothesis development

The issue of sustainability is of critical importance today, particularly when it comes to making investment decisions. Sustainability encompasses global environmental, social, and governance issues, such as pollution of air, water, and resources, greenhouse gas emissions, climate change, and changes in the nitrogen and phosphorus cycles (Cowper-Smith & de Grosbois, 2011). The circular economy emphasizes that economic and social systems must consider environmental aspects and climate change in light of social transformation, economic development, scarcity of natural resources, and population growth (Hillman & Klein, 2001). Given the visible and widespread impacts of business on biodiversity, natural resources, and global warming, the impact of business on sustainability is becoming increasingly important, with a growing body of literature examining this topic (Halbritter & Dorfleitner, 2015). Companies that practice good environmental, social, and governance (ESG) policies can expect to achieve sustainable financial results while fulfilling their accountability in these areas. Previous studies have documented the relationship between environmental aspects and investment decision-making in various countries, such as the United States, Japan, India, France, and Australia (Velte, 2019; Crane & Glozer, 2016; Balakrishnan et al., 2014).

Environmental issues are becoming increasingly important to investors worldwide as they evaluate corporate social responsibility behavior. For instance, private equity investors in the US assess ESG practices when evaluating companies for investment, and French companies that disclose their ESG practices often influence investment decisions. In fact, private equity investors are 30.8% less likely to invest in companies with environmentally irresponsible practices or policies (Post et al., 2011; Liu et al., 2017). Indian investors also prioritize environmental issues as a key element in achieving non-economic investment goals (McNichols & Stubben, 2008; Shroff et al., 2014). However, the Brazilian stock market seems to be lagging behind in incorporating environmental issues into investment decisions. In contrast, Indonesia's industrial behavior contributes significantly to environmental pollution, but it remains unclear whether investors in Indonesia are taking environmental issues into account when making investment decisions. Given the growing global concern over the impact of environmental issues on investments, it is essential to examine whether investors in Indonesia are considering the environment in their investment decisions.

Social issues encompass a wide range of topics that relate to the well-being, rights, and interests of individuals and communities. These include crucial issues such as workplace health and safety, human rights, modern-day slavery, child labor, bonded labor, supply chain labor standards, differences in society, freedom of expression, freedom of association, access to healthcare and medicines, human resource management, relations with local communities, controversial weapons, consumer protection, and activities in conflict zones. According to recent studies, social issues constitute a significant part of the ESG (environmental, social, and governance) criteria (Zuraida et al., 2018; Crane & Glozer, 2016), with investors increasingly taking into account factors such as pension fund investments, employee-community relations, and human rights in their investment decisions. In Australia, social issues are given more weightage than other ESG issues such as environmental and governance concerns, while in Brazil, stock market investors do not evaluate social issues. However, there is a growing trend among investors worldwide to consider a company's social impact while making investment decisions. Overall, addressing social issues is critical for companies that aim to achieve sustainable growth and long-term success. By prioritizing these issues, companies can not only meet the expectations of investors but also build trust with stakeholders and contribute to positive social change.

Investors' economic rationality is closely linked to corporate governance practices, as noted by Chin et al. (2008). Profitability is crucial for ensuring sustainable business and economic systems, and companies with efficient governance practices are more likely to engage in responsible social and environmental practices, according to Halbritter and Dorfleitner (2015). Governance issues encompass a wide range of factors related to the management of firms and other investee entities, including board composition, diversity, skills, independence, internal control and risk management, executive compensation, information disclosure, business ethics, shareholder rights, stakeholder engagement, and corruption (Jang et al., 2022). ESG investing holds tremendous potential, far exceeding that of active investing, which seeks to outperform market indices through risk-adjusted strategies based on fundamental and technical analysis, with roots tracing back to Charles Dow (Velte, 2019; Crane & Glozer, 2016).

In the context of stakeholder theory, companies deeply engaged in ESG activities possess the potential to garner heightened trust from stakeholders. Moreover, such involvement in ESG reflects a commitment to fulfilling the company's long-term vision and mission, transcending mere profit maximization to prioritize future value (Erdiaw-Kwasie et al., 2017; Crane & Glozer, 2016; Dhar et al., 2022). Various sustainability studies further assert that companies demonstrating excellence in addressing ESG concerns can significantly impact their long-term financial viability in a sustainable manner (Ratri et al., 2021; Harymawan et al., 2020; Zuraida et al., 2018). This substantiates the notion that ESG engagement allows investors to confidently allocate their funds to companies that emphasize corporate and environmental sustainability. Consequently, a clear correlation emerges between a company's ESG involvement and its gradual attainment of trust and stable funding through effective and efficient investment decision-making activities. Hence, this leads us to posit the following:

H_1: Ceteris paribus, ESG disclosure has positive effect on the corporate investment decisions.

3. Research method

Data, population, and sample

The initial data gathered by the authors are derived from Indonesian public non-financial companies spanning the timeframe 2010-2020. The authors employed a purposive sampling method to select their sample, deliberately excluding companies affiliated with the financial industry. The approach to sample selection in this study is intriguing, involving two key criteria. Firstly, the authors categorized companies falling under the GRI index as a benchmark for sustainability reporting.

Secondly, they tracked companies over the last 5 or 7 years to determine if they had published their sustainability reports on the IDX website or database. As a result, the study's sample accurately represents the actual ESG practices prevailing in the companies. The data collection process involved meticulous manual retrieval of both financial and non-financial variables, with some data sourced from the OSIRIS database.

The final sample size comprised 378 firm-year observations, meeting the established criteria outlined in Table 1. Table 2 illustrates the sample distribution categorized by year and industry. Panel A reveals the distribution of samples across different years, with an average of 64 observations collected each year.

Panel B showcases the sample distribution based on industry classification, highlighting the construction industry as the largest sample with 124 observations, while the service industry, as well as law and consulting sectors, represents the smallest sample with 6 and 12 observations, respectively.

Table 1. Sample selection process

Sample selection criteria	**Amounts**
Initial sample for periods 2015-2020	449
Excluding:	
Missing data financial industries (sic 6)	(35)
Missing data dependent variable	(12)
Missing data independent variable	(15)
Missing data control variable	(9)
Final sample	**378**

Table 2. Sample distribution based on year and industry

Panel A: Sample based on year

Year	**Freq.**	**%**
2015	59	15.61
2016	61	16.14
2017	64	16.93
2018	65	17.20
2019	65	17.20
2020	64	16.93
Total	**378**	**100.00**

Panel B: Sample based on industries

SIC	**Industry**	**Freq.**	**%**
0	Agriculture, forestry and fisheries	30	7.94
1	Mining	81	21.43
2	Construction industries	124	32.80
3	Manufacturing	22	5.82
4	Transportation, and Utilities	62	16.40
5	Wholesale and retail trade	41	10.85
7	Services industries	6	1.59
8	Health, legal, educational services and consulting	12	3.17
Total		**378**	**100.00**

Variable operationalisation

The key focus of this study lies in the independent variable, which pertains to the company's investment decision, reflecting its ability to efficiently generate optimal investments. This variable is assessed through a comparison between capital expenditure and the year's initial book value (Ngelo et al., 2022; Nguyen & Muniandy, 2021). On the other hand, the dependent variable centers around ESG (environmental, social, and governance) aspects, illustrating how the company discloses essential issues concerning the environment, society, and governance. The measurement of ESG disclosure involves a comparison between the sum of ESG disclosure represented by a dummy variable and the overall total (Ratri et al., 2021; Rao & Tilt, 2016). Furthermore, this study incorporates several control variables, including CEO duality, board size (BOARDSIZE), audit committee (AUDCOM), return on assets (ROA), debt to equity ratio (DER), profit/loss status (LOSS), cash on total assets (CATA), sales growth (GRSALES), and CEO tenure (TENURE).

Table 3. Variable operationalisation

Variable	Measurement	Source
Dependent		
INVESTMENT	The firm's capital expenditure is scaled by the beginning-of-year-book total asset	Annual report
Independent		
ESG	Total of item disclosed by firm that indicates dimension of environment, social, and governance scaled by total of item (Ratri et al., 2021)	Sustainability report
Control		
BIG4	Dummy variable, which equals one if the firms audited from top four accounting big firm, and 0 otherwise	Annual report
CEODUALITY	Dummy variable, which equals one if CEO serves not only in the one position, but also another position in the same firm.	Annual report
BOARDSIZE	The number of directors and commissioners in the firms	OSIRIS
AUDCOM	The number of audit committee by given years	Annual report
ROA	Total return scaled by total assets	OSIRIS
DER	Total debt scaled by total equity	OSIRIS
LOSS	Dummy variable, which equals one if negative earnings before tax at t-1, and 0 conversely	OSIRIS
CATA	Total cash scaled by total assets	OSIRIS
GRSALES	Sales t scaled by sales at t-1	OSIRIS
TENURE	Dummy variable, which equals one if the CEO serves more than 10 year, and 0 otherwise	Annual report
Instrument variable		
ENVIRONMENT_M	The average of environment by the same industry	Sustainability report
SOCIAL_M	The average of social by the same industry	Sustainability report
GOVERNANCE_M	The average of social by the same industry	Sustainability report

Model specification

To address the research hypothesis, the researcher employed a fixed effect panel regression with a robust standard error estimate and incorporated various industry and year fixed effects to account for disparities in data characteristics. Hence, our research model can be outlined as follows:

$$INVESTMENT_{i,t} = \beta 0 + \beta 1\ ENVIRONMENT_{i,t} + \beta 2\ CEODUALITY_{i,t} + \beta 3\ BOARDSIZE_{i,t} + \beta 4\ AUDCOM_{i,t} + \beta 5\ ROA_{i,t} + \beta 6\ DER_{i,t} + \beta 7\ LOSS_{i,t} + \beta 8\ CATA_{i,t} + \beta 9\ GRSALES_{i,t} + \beta 10\ TENURE_{i,t} + \text{Firm Fixed Effect} + \text{Year Fixed Effect} + e \quad (1)$$

$$INVESTMENT_{i,t} = \beta 0 + \beta 1\ SOCIAL_{i,t} + \beta 2\ CEODUALITY_{i,t} + \beta 3\ BOARDSIZE_{i,t} + \beta 4\ AUDCOM_{i,t} + \beta 5\ ROA_{i,t} + \beta 6\ DER_{i,t} + \beta 7\ LOSS_{i,t} + \beta 8\ CATA_{i,t} + \beta 9\ GRSALES_{i,t} + \beta 10\ TENURE_{i,t} + \text{Firm Fixed Effect} + \text{Year Fixed Effect} + e \quad (2)$$

$$INVESTMENTi,t = \beta0 + \beta1\ GOVERNANCEi,t + \beta2\ CEODUALITYi,t + \beta3\ BOARDSIZEi,t + \beta4\ AUDCOMi,t + \beta5\ ROAi,t + \beta6\ DERi,t + \beta7\ LOSSi,t + \beta8\ CATAi,t + \beta9\ GRSALESi,t + \beta10\ TENUREi,t + Firm\ Fixed\ Effect + Year\ Fixed\ Effect + e \quad (3)$$

$$INVESTMENTi,t = \beta0 + \beta1\ ENVIRONMENTi,t + \beta2\ SOCIALi,t + \beta3\ GOVERNANCEi,t + \beta4\ CEODUALITYi,t + \beta5\ BOARDSIZEi,t + \beta6\ AUDCOMi,t + \beta7\ ROAi,t + \beta8\ DERi,t + \beta9\ LOSSi,t + \beta10\ CATAi,t + \beta11\ GRSALESi,t + \beta12\ TENUREi,t + Firm\ Fixed\ Effect + Year\ Fixed\ Effect + e \quad (4)$$

4. Results and discussion

Descriptive statistics and univariate analysis

Table 4 presents a descriptive statistical summary for the dependent variable "INVESTMENT," showing a mean of 6.7% and a median of 4.9%. This indicates that the company's disclosed average investment value exceeds the median value. In contrast, the ESG variable has a mean of 78.7% and 64.9%, with respective medians of 86.3% and 74.4%. The aggregate ESG values of the company exhibit a diverse range since the average ESG value disclosed falls below the median value. Consequently, it can be inferred that the "INVESTMENT" and ESG variables demonstrate varying magnitudes based on the descriptive statistics.

Table 4. Descriptive statistics

	Mean	Median	Minimum	Maximum
INVESTMENT	0.067	0.049	0.000	0.514
ENVIRONMENT	0.787	0.863	0.322	0.967
SOCIAL	0.649	0.744	0.104	0.936
GOVERNANCE	-0.271	-0.148	-1.133	-0.033
BIG4	0.650	1.000	0.000	1.000
CEODUALITY	0.220	0.000	0.000	1.000
BOARDSIZE	2.393	2.398	1.386	3.135
FIRMSIZE	8.275	8.185	3.807	12.329
AUCOM	3.232	3.000	0.000	6.000
ROA	4.878	4.658	-36.175	38.163
DER	1.339	0.969	-15.817	13.543
LOSS	0.198	0.000	0.000	1.000
CATA	0.368	0.372	0.004	0.821
GRSALES	0.099	0.045	-0.827	8.724
TENURE	1.494	1.386	0.000	3.555

Moreover, the pearson correlation in Table 5 demonstrates the associations between variables, with each level of significance represented by an asterisk or multiple asterisks. There are three types of asterisks: *, **, and ***, corresponding to the 10%, 5%, and 1% significance levels, respectively.

These asterisks indicate the strength of the relationship between variables, showing whether it improves or worsens as the number of asterisks increases. A negative sign signifies an inverse relationship, while a positive sign indicates a unidirectional relationship. Regarding the variables environment, social, and governance, they are not significantly related to investment when analyzed individually. This finding indicates that there is no issue of multicollinearity between the independent and dependent variables.

However, it does not imply an undefined relationship between them. It is crucial to note that Pearson Correlation only assesses the strength of the relationship between variables and not their causal influence (Steiger, 1980).

Table 5. Pearson correlation

	Investment	**Environment**	**Social**	**Governance**	**Big4**	**CEO duality**	**Board size**	**Firm size**
INVESTMENT	1.000							
ENVIRONMENT	0.012	1.000						
	(0.832)							
SOCIAL	-0.000	0.994***	1.000					
	(0.995)	(0.000)						
GOVERNANCE	0.026	0.991***	0.971***	1.000				
	(0.642)	(0.000)	(0.000)					
BIG4	0.128**	-0.051	-0.062	-0.035	1.000			
	(0.022)	(0.301)	(0.206)	(0.479)				
CEODUALITY	-0.054	0.028	0.028	0.026	-0.014	1.000		
	(0.334)	(0.574)	(0.566)	(0.599)	(0.780)			
BOARDSIZE	0.078	-0.059	-0.066	-0.049	0.282***	0.005	1.000	
	(0.209)	(0.295)	(0.237)	(0.384)	(0.000)	(0.929)		
FIRMSIZE	0.068	0.000	0.009	-0.008	0.311***	0.062	0.517***	1.000
	(0.275)	(0.993)	(0.872)	(0.882)	(0.000)	(0.255)	(0.000)	
AUCOM	0.166**	-0.093	-0.105*	-0.078	0.140**	-0.019	0.109*	0.011
	(0.017)	(0.142)	(0.097)	(0.219)	(0.027)	(0.766)	(0.084)	(0.860)
ROA	0.132**	-0.039	-0.041	-0.036	0.218***	0.058	0.410***	0.226***
	(0.018)	(0.490)	(0.470)	(0.521)	(0.000)	(0.305)	(0.000)	(0.000)
DER	-0.001	0.102*	0.105*	0.099*	-0.111**	-0.081	-0.094*	-0.099*
	(0.991)	(0.065)	(0.057)	(0.074)	(0.046)	(0.141)	(0.099)	(0.075)
LOSS	-0.120**	-0.074	-0.063	-0.088	-0.140**	-0.040	-0.398***	-0.301***
	(0.033)	(0.186)	(0.260)	(0.118)	(0.013)	(0.472)	(0.000)	(0.000)
CATA	-0.133**	0.015	0.017	0.012	0.093*	0.015	0.189***	0.278***
	(0.031)	(0.790)	(0.762)	(0.833)	(0.093)	(0.782)	(0.001)	(0.000)
GRSALES	0.132**	0.019	0.015	0.023	-0.016	0.018	0.015	-0.130**
	(0.033)	(0.733)	(0.787)	(0.684)	(0.775)	(0.749)	(0.797)	(0.019)
TENURE	-0.017	0.125**	0.135**	0.117**	-0.183***	0.142***	-0.090	0.044
	(0.788)	(0.021)	(0.013)	(0.032)	(0.001)	(0.009)	(0.108)	(0.417)

	AUCOM	**ROA**	**DER**	**LOSS**	**CATA**	**GRSALES**	**TENURE**
AUCOM	1.000						
ROA	0.004	1.000					
	(0.954)						
DER	-0.079	-0.128**	1.000				
	(0.220)	(0.039)					
LOSS	-0.017	-0.623***	0.164***	1.000			
	(0.808)	(0.000)	(0.008)				
CATA	-0.160**	0.415***	-0.211***	-0.350***	1.000		
	(0.012)	(0.000)	(0.000)	(0.000)			
GRSALES	0.019	0.215***	-0.023	-0.197***	0.013	1.000	
	(0.774)	(0.000)	(0.679)	(0.001)	(0.810)		
TENURE	-0.171***	-0.050	0.069	-0.033	0.055	-0.146***	1.000
	(0.007)	(0.422)	(0.217)	(0.589)	(0.327)	(0.008)	

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

ESG practices and corporate investment decisions

Table 6 displays the regression results concerning ESG and corporate investment decisions (Investment). The findings from the regression indicate positive and highly significant values. Notably, the environment variable (Coef. = 0.054, t = 2.49) is statistically significant at a 5% level, GOVERNANCE (Coef. = 0.032, t = 2.05) is also statistically significant at a 5% level, and social (Coef. = 0.042, t = 2.86) is highly statistically significant at a 1% level. Hence, there exists a positive and significant relationship between the ESG variable and corporate investment decisions (Investment), which supports our hypotheses about the idea that ESG practices in companies can enhance investment decisions. This evidence suggests that companies effectively managing their ESG information can achieve higher investment decisions and even experience a significant return on investment with a pre-planned projected return.

Table 6. The Regression result

	(1) Investment	**(2) Investment**	**(3) Investment**
ENVIRONMENT	0.054**		
	(2.49)		
SOCIAL		0.032**	
		(2.05)	
GOVERNANCE			0.042***
			(2.86)
BIG4	-0.062***	-0.062***	-0.061***
	(-4.24)	(-4.24)	(-4.25)
CEODUALITY	-0.051***	-0.051***	-0.051***
	(-3.10)	(-3.09)	(-3.12)
BOARDSIZE	-0.029*	-0.029*	-0.029*
	(-1.73)	(-1.73)	(-1.71)
FIRMSIZE2	0.001	0.001	0.001
	(0.64)	(0.59)	(0.71)
AUCOM	0.039**	0.039**	0.040**
	(2.04)	(2.04)	(2.05)
ROA	0.054***	0.053***	0.056***
	(2.67)	(2.63)	(2.73)
DER	0.032	0.032	0.033
	(1.18)	(1.18)	(1.19)
LOSS	0.047**	0.046**	0.047**
	(2.08)	(2.07)	(2.10)
CATA	0.051*	0.050*	0.053*
	(1.72)	(1.68)	(1.77)
GRSALES	-0.019	-0.017	-0.020
	(-0.62)	(-0.58)	(-0.66)
TENURE	0.072***	0.073***	0.071***
	(2.72)	(2.73)	(2.69)
Industry fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
GRI fixed effect	Yes	Yes	Yes
CONSTANT	0.069	0.091	0.125**
	(1.07)	(1.42)	(2.02)

F	5.169	5.165	5.251
R2	0.246	0.241	0.252
N	378	378	378

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Furthermore, considering the R-square values of model 1 (R-Square = 0.246), model 2 (R-Square = 0.241), and model 3 (R-Square = 0.252), it is evident that they collectively contribute to elucidating the interplay between variables and their impact on the response variable (Ngelo et al., 2022). As a result, the research model has yielded noteworthy outcomes in support of the proposed hypothesis.

Robustness test

In research pursuits, the issue of endogeneity invariably arises. Given the use of panel data in this study, it is conceivable that a connection between variables exists but remains inadequately captured, known as the simultaneous problem. Moreover, this simultaneous problem can occasionally introduce biases into the test outcomes. To uphold the dependability and accuracy of our model, we employ sophisticated statistical techniques, namely the coarse exact match method (CEM) and the Heckman Two-Stage Model.

Coarsened exact matching analysis

Tables 7 and 8 display the outcomes of the CEM analysis, which aims to ensure the consistency of the research model and address endogeneity concerns. This examination involves dividing the control variable into three strata (Blackwell et al., 2009), grouping each stratum based on similar characteristics to the independent variables. Table 7 provides a summary of the sample distribution using CEM for the environment, social, and governance aspects, respectively. Meanwhile, Table 8 presents the regression findings from the CEM model, which align with the main analysis.

Table 7 illustrates that out of 378 observations, 203 belong to companies with environment dimensions, while the remaining observations do not. Similarly, the social category comprises 198 out of 378 observations, representing a sample similar to the main social sample, with the rest falling outside this category. lastly, the governance observation sample contains 243 observations out of the total.

Table 7. Coarsened exact matching summary

Panel A: Matching summary for environment

	Environment = 1	**Environment = 0**
All	257	121
Matched	158	45
Unmatched	99	76

Panel B: Matching summary for environment

	Social = 1	**Social = 0**
All	221	157
Matched	143	55
Unmatched	78	102

Panel C: Matching summary for environment

	Governance = 1	**Governance = 0**
All	265	113
Matched	198	45
Unmatched	67	68

Moving on to Table 8, it showcases the regression outcomes derived from the coarsened exact matching analysis. These results demonstrate the consistency of our regression outcomes with the main analysis for environment (Coef. = 0.054, t = 2.49) with a significance level of 5%, social (Coef. = 0.032, t = 2.05) with a significance level of 5%, and governance (Coef. = 0.042, t = 2.86) with a significance level of 1%. These findings indicate that our primary results are robust and not affected by endogeneity issues.

Table 8. Coarsened exact matching

	(1) INVESTMENT	(2) INVESTMENT	(3) INVESTMENT
ENVIRONMENT	0.054**		
	(2.49)		
SOCIAL		0.032**	
		(2.05)	
GOVERNANCE			0.042***
			(2.86)
BIG4	0.039**	0.039**	0.040**
	(2.04)	(2.04)	(2.05)
CEODUALITY	0.054***	0.053***	0.056***
	(2.67)	(2.63)	(2.73)
BOARDSIZE	0.032	0.032	0.033
	(1.18)	(1.18)	(1.19)
FIRMSIZE2	0.047**	0.046**	0.047**
	(2.08)	(2.07)	(2.10)
AUCOM	0.051*	0.050*	0.053*
	(1.72)	(1.68)	(1.77)
ROA	-0.019	-0.017	-0.020
	(-0.62)	(-0.58)	(-0.66)
DER	0.072***	0.073***	0.071***
	(2.72)	(2.73)	(2.69)
LOSS	0.040	0.036	0.043
	(0.94)	(0.86)	(1.02)
CATA	-0.137***	-0.136***	-0.139***
	(-3.14)	(-3.10)	(-3.19)
GRSALES	0.034	0.033	0.034
	(1.37)	(1.34)	(1.38)
TENURE	-0.051***	-0.051***	-0.051***
	(-3.10)	(-3.09)	(-3.12)
Industry fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
GRI fixed effect	Yes	Yes	Yes
CONSTANT	0.069	0.091	0.125**
	(1.07)	(1.42)	(2.02)
F	5.169	5.165	5.251
r2	0.246	0.241	0.252
N	203	198	243

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Self-selection bias: Heckman (1979) two-stage least square

Next, we present the findings of Heckman's (1979) Two-Stage Least Square analysis in Table 9. Panel A displays the outcomes of the initial stage regression model. To conduct this test, we employed an instrumental variable represented by industry averages with a significant number of ESG disclosures (ENVIRONMENT_M, SOCIAL_N, and GOVERNANCE_M). This variable is measured using a dummy variable (1) when environmental, social, and governance disclosures exceed the industry average. We selected this variable because companies that excel in disclosing their ESG information often lead other companies within the same industry to follow suit and disclose their ESG data significantly. Additionally, to demonstrate the robustness of our research results and ensure the model's freedom from biased outcomes, we created the MILLS ratio variable as an indicator.

Table 9. Heckman (1976) self-selection bias

Panel A: First stage

	(1) ENVIRONMENT	**(2) SOCIAL**	**(3) GOVERNANCE**
ENVIRONMENT_M	0.340***		
	(23.38)		
SOCIAL_M		0.485***	
		(28.27)	
GOVERNANCE_M			-0.503***
			(-18.68)
BIG4	0.001	-0.005	0.017
	(0.07)	(-0.24)	(0.55)
CEODUALITY	-0.002	-0.002	-0.029
	(-0.11)	(-0.09)	(-1.19)
BOARDSIZE	0.034	0.022	0.091
	(1.01)	(0.53)	(1.45)
FIRMSIZE2	0.013**	0.022***	0.012
	(2.22)	(2.97)	(1.14)
AUCOM	-0.011	-0.016	-0.010
	(-1.05)	(-1.29)	(-0.57)
ROA	-0.002*	-0.001	-0.003**
	(-1.66)	(-1.28)	(-2.06)
DER	0.013**	0.016**	0.028**
	(2.09)	(2.06)	(2.29)
LOSS	-0.033	-0.035	-0.065
	(-1.36)	(-1.22)	(-1.46)
CATA	0.010	0.003	0.091
	(0.19)	(0.05)	(0.99)
GRSALES	0.005	-0.006	0.008
	(0.23)	(-0.21)	(0.20)
TENURE	0.013*	0.011	0.034***
	(1.84)	(1.27)	(2.75)
Industry fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
GRI fixed effect	Yes	Yes	Yes
CONSTANT	0.407***	0.154	-0.446***
	(4.71)	(1.50)	(-2.92)

F	31.777	45.598	23.001
r2	0.823	0.861	0.767
N	200	200	200

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Panel B: Second stage

	(1) INVESTMENT	(2) INVESTMENT	(3) INVESTMENT
ENVIRONMENT	0.056**		
	(2.54)		
SOCIAL		0.034**	
		(2.11)	
GOVERNANCE			0.043***
			(2.88)
BIG4	0.030*	0.030*	0.029*
	(1.69)	(1.69)	(1.67)
CEODUALITY	-0.060***	-0.060***	-0.060***
	(-4.16)	(-4.16)	(-4.16)
BOARDSIZE	-0.051***	-0.051***	-0.051***
	(-3.18)	(-3.16)	(-3.20)
FIRMSIZE2	-0.032*	-0.033*	-0.032*
	(-1.89)	(-1.90)	(-1.89)
AUCOM	0.060**	0.060**	0.061**
	(2.52)	(2.50)	(2.55)
ROA	0.061*	0.060*	0.062**
	(1.93)	(1.89)	(1.98)
DER	0.008	0.009	0.007
	(0.24)	(0.27)	(0.21)
LOSS	0.081***	0.081***	0.080***
	(3.06)	(3.08)	(3.03)
CATA	-0.109**	-0.107**	-0.111**
	(-2.29)	(-2.25)	(-2.34)
GROWTH_SALES	0.034	0.034	0.035
	(1.60)	(1.57)	(1.62)
TENURE2	0.003	0.004	0.003
	(0.64)	(0.67)	(0.59)
MILLS	(1.93)	(1.89)	(1.98)
	0.008	0.009	0.007
Industry fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
GRI fixed effect	Yes	Yes	Yes
CONSTANT	0.040	0.062	0.098
	(0.64)	(0.99)	(1.60)
r2	0.273	0.267	0.279
r2_a	0.172	0.166	0.180
N	200	200	200

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Additional analysis

Sub-sample: president election and non-president election

Occasionally, in many research studies, scholars must establish confidence in the validity of their findings through various alternative testing methods. Harymawan and Nowland (2016) elaborate on one such approach, which involves conducting sub-sample testing. This technique aims to ensure confidence and accuracy across different scenarios within the research sample, thereby yielding more diverse and persuasive results.

Table 10 presents the findings of sub-sample tests conducted under conditions of economic and political uncertainty. The study focused on both (President election) and (Non President election) periods to observe distinct outcome conditions. The results of the sub-sample testing provide compelling and distinctive evidence, indicating that companies' investment decisions remained unaffected by the exogenous impact of these events. Thus, it confirms that ESG practices do lead to higher investment decisions, even when facing the external influence of presidential election events.

Table 10. Additional analysis: sub sample – president election and non-president election periods

Panel A: President election periods

	(1) INVESTMENT	(2) INVESTMENT	(3) INVESTMENT
ENVIRONMENT	0.055**		
	(2.49)		
SOCIAL		0.032**	
		(2.05)	
GOVERNANCE			0.042***
			(2.86)
BIG4	-0.063***	-0.063***	-0.063***
	(-4.27)	(-4.27)	(-4.27)
CEODUALITY	-0.051***	-0.052***	-0.051***
	(-3.10)	(-3.08)	(-3.11)
BOARDSIZE	-0.029*	-0.030*	-0.029*
	(-1.73)	(-1.74)	(-1.72)
FIRMSIZE	0.000	0.000	0.000
	(.)	(.)	(.)
AUCOM	0.040**	0.040**	0.040**
	(2.06)	(2.07)	(2.08)
ROA	0.055***	0.054***	0.056***
	(2.69)	(2.66)	(2.76)
DER	0.033	0.033	0.034
	(1.21)	(1.21)	(1.22)
LOSS	0.047**	0.047**	0.048**
	(2.10)	(2.09)	(2.12)
CATA	-0.138***	-0.136***	-0.140***
	(-3.15)	(-3.11)	(-3.20)
GRSALES	0.073***	0.073***	0.072***
	(2.74)	(2.75)	(2.71)
TENURE	0.052*	0.051*	0.053*
	(1.74)	(1.70)	(1.79)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
GRI Fixed Effect	Yes	Yes	Yes
CONSTANT	0.073	0.095	0.129**
	(1.12)	(1.46)	(2.06)
F	4.211	4.144	4.318
r2	0.234	0.229	0.240
N	199	199	199

t statistics in parentheses

[*] $p < 0.1$, [**] $p < 0.05$, [***] $p < 0.01$

Panel B: Non president election periods

	(1) INVESTMENT	(2) INVESTMENT	(3) INVESTMENT
ENVIRONMENT	0.060**		
	(2.44)		
SOCIAL		0.036**	
		(2.04)	
GOVERNANCE			0.045***
			(2.74)
BIG4	-0.062***	-0.062***	-0.062***
	(-4.14)	(-4.13)	(-4.15)
CEODUALITY	-0.052***	-0.052***	-0.052***
	(-3.00)	(-2.98)	(-3.03)
BOARDSIZE	0.060**	0.060**	0.061**
	(2.21)	(2.19)	(2.28)
FIRMSIZE2	0.001	0.002	0.002
	(0.22)	(0.24)	(0.23)
AUCOM	0.065*	0.066**	0.064*
	(1.95)	(1.99)	(1.92)
ROA	0.001	0.001	0.001
	(0.63)	(0.59)	(0.68)
DER	-0.002	-0.001	-0.002
	(-0.19)	(-0.14)	(-0.23)
LOSS	-0.013	-0.014	-0.012
	(-0.54)	(-0.58)	(-0.48)
CATA	-0.155**	-0.153**	-0.157**
	(-2.51)	(-2.47)	(-2.56)
GRSALES	0.039	0.038	0.040
	(1.36)	(1.34)	(1.40)
TENURE	0.002	0.002	0.002
	(0.37)	(0.38)	(0.34)
Industry fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
GRI fixed effect	Yes	Yes	Yes
CONSTANT	0.119	0.142*	0.181**
	(1.47)	(1.75)	(2.28)
r2	0.262	0.256	0.268
N	149	149	149

t statistics in parentheses
[*] $p < 0.1$, [**] $p < 0.05$, [***] $p < 0.01$

5. Conclusions

The primary objective of this research is to explore the correlation between ESG practices and corporate investment decisions. Previous literature has underscored the pivotal role of ESG practices in shaping optimal investment choices at the company level. Companies that effectively implement ESG practices are perceived as trustworthy in meeting stakeholder expectations. This study presents novel insights into the impact of ESG practices on the investment decisions of companies listed on the IDX during the 2015-2020 period. The findings strongly indicate that companies engaged in ESG practices gain a competitive advantage in formulating their investment decisions. These results are consistent with our expectations, in line with stakeholder theory, as companies demonstrating high ESG performance tend to experience reduced information asymmetry and enhanced stakeholder harmony, consequently fostering sound investment policies.

This research builds upon prior investigations by (i) analyzing three crucial ESG factors: environmental, social, and governance disclosure practices, and (ii) investigating the influence of ESG considerations on investment decision-making. The empirical findings from this study substantiate the stakeholder theory concerning the impact of ESG disclosure and corporate governance on investment decisions within Indonesian companies. What sets this evidence apart is its emphasis on developing countries, like Indonesia, where comprehensive regulations mandating extensive ESG disclosure are yet to be established.

This study holds considerable theoretical and practical significance. From a theoretical standpoint, it enriches the corporate governance literature by shedding light on improved decision-making through the prism of ESG practices. Furthermore, this research pioneers a novel conceptual framework that delves into the external influence of economic uncertainties, such as presidential elections, on investment decision-making. On the practical front, this study provides valuable policy recommendations for stakeholders and policymakers concerning investment decisions in companies. Stakeholders can effectively guide companies in their investment choices by actively advocating sustainable ESG practices. Additionally, policymakers may contemplate implementing regulations mandating comprehensive ESG guidelines for enterprises, especially in developing nations.

Acknowledging the imperfections inherent in this study, we anticipate that forthcoming research will take into account exogenous variables that could potentially influence the relationship between ESG practices and investment decisions. Furthermore, it would be valuable for future investigations to explore whether investment decisions are exclusively driven by ESG practices or if other unaddressed factors, like earnings management, also exert an impact. By incorporating these aspects, a more profound understanding can be attained in future research endeavors.

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