The Market Reaction to Firms' ESG Disclosures: Does Audit Quality Matter?

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ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) Disclosure on capital market reaction, in this case, the Firm Value. Also, this study examines whether the relationship between ESG Disclosure and Firm Value is influenced by the moderating effect of audit quality. This study regresses three primary variables: Firm Value (measured using Price to Book Value), ESG Disclosure (measured based on the ESG Disclosure Score by BGK Foundation), and Audit Quality (is dummy variable with 1 for good audit quality). Using the purposive sampling method this study utilizes 202 firm-years sample from non-financial sector companies for the period 2018-2021. The major finding reveals that ESG Disclosure has a negative effect on Firm Value. Related to the influence of moderating variables, this study finds that Audit Quality is able to strengthen the positive effect of ESG Disclosure on Firm Value or weaken the negative effect of ESG Disclosure on Firm Value. The implication of this study shows that Audit Quality plays a role in decision making process related to Firm Value and ESG Disclosure.

Keywords - **ESG, ESQ Disclosure Score, Firm Value, Audit Quality, BGK Foundation**

INTRODUCTION

The objective of this study is to examine the effect of Environmental, Social, and Governance (ESG) Disclosure on capital market reaction. In this case, the capital market reaction is represented by the Firm Value. Basing on signaling theory and legitimacy theory this study provides empirical evidence whether ESG disclosure emits positive signal to market so that the market will legitimate the existence of the firms by increasing their firm value. Also, this study examines whether the relationship between ESG Disclosure and the market reaction (Firm Value) is influenced by the moderating effect of audit quality. Basing on agency theory this study provides evidence whether corporate governance mechanism has a moderating effect on the influence of ESG disclosure on firm value.

Climate change has now become a crucial issue that brings serious economic threats to developing countries with weak infrastructure and systems (Gunawan et al., 2022). Based on the results of the PwC survey (2022) in the Translating Sustainability and Climate Commitments into Action report, of 650 companies, 84% of the companies reported that they identified climate change as a sustainability issue but less than half of the companies actually integrated climate change mitigation efforts and risks in their business operations. Climate change is reminding countries around the world of the importance of sustainability development. Sustainability Development (SDGs) is a development to complement current needs without risking the capacity of future generations to ensure their needs are met (Fransisca, 2021). Climate change can be one of the main obstacles in achieving the goals of the SDGs that all member countries of the United Nations (UN) have officially implemented in 2015 by the United Nations. Sustainable development aims to be a global plan to address climate, inequality, poverty, environment, and justice issues (Aji & Kartono, 2022).

The trend of sustainable reporting is growing worldwide and this illustrates the increasing commitment of global companies to sustainable development issues (Melinda & Wardhani, 2020). This is supported by the enactment of Financial Services Authority Regulation Number 51 /POJK.03/2017 regarding the implementation of sustainable financial principles for Issuers, Financial Services Institutions, and Public Companies in Indonesia. In sustainability reports there are aspects such as environment, social, and governance known as ESG (Environmental, Social and Governance) factors (Atan et al., 2018). Environmental aspects can be taken into consideration for companies in carrying out company operations that are sustainable and do not damage nature. The social aspect is the good relationship between the company and external parties. Furthermore, the governance aspect discusses company legitimacy, internal control, investor rights, and company capacity (Azahra & Hasnawati, 2024). The implementation of these ESG aspects can encourage businesses to behave ethically and provide a positive image for stakeholders. According to Seker & Sengür (2021), the current information expectations of stakeholders are related to the importance of non-financial information.

Companies are now disclosing financial and non-financial (ESG) information to meet the information needs of their stakeholders. This is because ESG disclosure allows companies to produce higher quality information and provides a new measure of accountability that reflects voluntary commitment to non-financial goals and ensures the allocation of social trust (Christy & Sofie, 2023).

Based on a report from Ernst & Young (2022) in the Fourth ESG Reporting Maturity Assessment, in terms of ESG disclosure and reporting, the Global Reporting Initiative (GRI) standards are the most widely used global sustainability reporting framework globally. The GRI standards are designed to help organisations make better decisions and provide economic, environmental and social benefits for all parties. Indonesia in the preparation of sustainability reports in general is also guided by the Global Reporting Initiative (GRI) disclosure standards which define sustainability reports as the implementation of reporting on involvement and positive or negative impacts on environmental, social and economic aspects in order to achieve sustainable development targets. This is supported by the PwC survey (2023) in the report The Most Recent State and Future Directions of Sustainability Reporting Indonesia that 80% of the companies studied in Indonesia reported sustainability disclosures by applying the Global Reporting Initiative (GRI) standards.

Increased global awareness and investor interest in non-financial factors puts pressure on organisations to increase their efforts and focus on non-financial aspects of their operations. Stakeholders expect companies to pay attention to performance on social, governance and economic risks with ESG disclosure. ESG disclosure can be done by companies to gain a competitive advantage (Aydoğmuş et al., 2022). Based on the results of the ESG and Financial Value Survey published by KPMG in 2023 revealed that business leaders will increasingly focus on improving the implementation of ESG strategies despite economic uncertainty, 55% of company respondents will increase ESG performance efforts this year. Companies that focus on ESG strategies aim to optimise company value. According to Li et al. (2018), entities that disclose ESG are able to contribute to increased firm value through increased accountability, transparency, and stakeholder trust. Therefore, the greater the ESG disclosure, the higher the firm value.

Company value is the main focus considered by investors in decision making when investing. If there is an increase in company value, the company's image will also be higher. This high company value is important to represent the company's performance so that companies need to improve quality so that it can influence investors' views of the company and show high shareholder

prosperity as well (Wardhani et al., 2021). Based on a survey conducted by Ernst & Young (EY) in 2022, it states that almost all investors surveyed or 99% said the importance of ESG disclosure reporting in their investment decision-making considerations. This indicates that in the investment decision-making stage, market participants also pay attention to the quality of the company's ESG disclosure reporting.

Furthermore, this study also adds the audit quality variable as a moderator. Audit quality becomes a moderator with the assumption that the higher the audit quality in the company, it can increase the credibility of ESG disclosures which can increase stakeholder confidence in the entity's sustainability commitment so that it can increase firm value (Samy El-Deeb et al., 2023). Based on Dakhli's research (2022), audit quality can strengthen the relationship between ESG and firm value. Good audit quality tends to give positive signals to stakeholders, as a result information on ESG disclosure by the company can be accepted so that it can contribute to better firm value (Zahid et al., 2022).

The subject of discussion and research is how ESG Disclosure by non-financial sector companies listed on the BGK Foundation and IDX (Indonesia Stock Exchange) websites on firm value with audit quality as a moderating variable is considered to be a factor that supports the increase in firm value. However, audit quality is one of many other factors that strengthen the influence of ESG Disclosure on firm value. The audit quality variable in this study is used as a moderator because audit quality can be a driving factor that significantly affects ESG activities, so the relationship between ESG and firm value can be different depending on the audit quality of the company (Samy El-Deeb et al., 2023). The addition of this moderating variable is expected to provide new evidence and insights regarding the importance of ESG disclosure for more optimal management policies to achieve maximum firm value and how audit quality can affect the value of the company.

Previous studies by Fuadah et al. (2022) and Delvina & Hidayah (2023) revealed that ESG disclosure positively and significantly affects firm value. On the other hand, a study conducted by Arofah & Khomsiyah (2023) found empirical evidence that ESG disclosure has no effect on firm value. Research by Febrianty et al. (2023) and Dihardjo & Hersugondo (2023) also reveal a negative and significant influence between ESG and firm value.

Research that specifically examines the effect of ESG Disclosure on firm value with audit quality as a moderator has not been widely conducted. Samy El-Deeb et al. (2023) found that audit quality can strengthen the relationship between ESG Disclosure and firm value. Dakhli's research (2022) also found that ESG component disclosure has a positive effect on firm value moderated by audit quality. However, there are studies that say otherwise, such as research by Situmorang & Bimo (2023) found that the moderating effect of audit quality actually weakens the effect of the relationship between sustainability disclosure and firm value.

LITERATURE REVIEW

Signaling Theory, Agency Theory and Legitimacy Theory

This signal theory was officially introduced by Spence through his research entitled Job Market Signaling. Spence (1973) said that this signal means that the sender provides some of the relevant information that can then be used by the recipient of the information and will then adjust its actions according to the understanding of the signal. Spence also states that if there is information inequality between company managers and stakeholders, managers can reduce this information

inequality by providing the information needed to help stakeholders at the decision-making stage (Spence, 1973).

Based on research by Ratnasari et al. (2017), this signal theory describes how the entity should send signals to parties who use financial statements. Signals can be interpreted as information related to something that has been realised by management in order to realise the wishes of the owner (Taniman & Jonnardi, 2020). Managers provide this information with the aim that potential investors and investors are able to estimate the prospects of the company's situation in the future and can then use information from these signals in terms of making decisions to invest or not in the company.

The concept of signalling theory is in line with a company's commitment to disclosing long-term sustainability reports in the ESG component as a signal to investors that the company also contributes to the society and environment in which the company operates (Yu & Xiao, 2022) This non-financial ESG Disclosure information can be a signal that is viewed favourably by investors. This positive signal is expected to be received by market participants who bring the entity to obtain good value in the eyes of market participants in line with the increasing transactions and share prices that will affect the increase in company value (Safriani & Utomo, 2020).

Based on Jensen & Meckling (1976), agency theory is defined as an interaction between the principal or represented by the company and the agent that arises because there is a contract between the two and there is a transfer of authority and duties from the principal to another party or agent. In agency theory, there is information asymmetry where the agent and the principal have access to different information. This information asymmetry occurs because the agent has more information about the condition of the company because the agent manages the company directly. Agency theory assumes that each agent and principal has different preferences and tends to act in their personal interests, this difference in preferences can be called a conflict of interest.

This agency conflict creates a cost called agency cost. Based on Jensen & Meckling (1976) states that there are three types of agency costs, namely: Monitoring Cost, Bonding Cost and Residual Cost.

According to Watts & Zimmerman (1990), agency conflicts experienced by principals can be resolved by the use of third parties, namely external auditors who can be independent in verifying the financial statements prepared by agents, so that this is expected to reduce agency costs. Legitimacy theory was introduced by Guthrie & Parker (1989) and states that the growth and continuity of an organisation depends on the social acceptance of its actions and existence. According to Andriani & Arsjah (2022), legitimacy is an effort from the company to ensure that there is harmony between the company's value system and society.

The goal of this theory is to gain legitimacy from society by continuing to strive for companies to follow social values and standards that apply in society (Ningwati et al., 2022). Companies must continue to protect and maintain their legitimacy in the eyes of society. Companies will feel threatened by the legitimacy gap if there is a mismatch between the company's value system and the values upheld by society (Saputra et al., 2024). This difference or gap can occur due to the company's insensitivity to its activities, causing conflicts that are not aligned with society.

The stronger the legitimacy of the company will be in line with the support of the stakeholders, so the company tends to be more resilient to the crisis that will occur. Companies can strengthen their legitimacy through strategies to demonstrate commitment and concern for appropriate ESG issues in society by disclosing ESG through the company's Sustainability Report. The company will increase its competitive advantage and improve its image and better performance in the future as a result of ESG disclosure (Agustini et al., 2023).

Environmental, Social, and Governance (ESG) Disclosure

The term Environmental, Social, and Governance (ESG) refers to a concept that examines environmental, social, and corporate governance aspects in an effort to encourage sustainable business operations (Qodary & Tambun, 2021). Environmental, Social, Governance (ESG) is a practice to account for the company's performance report on the focus of sustainable development to all stakeholders both inside and outside the entity (Almeyda & Darmansyah, 2019). ESG can also be used as a framework when making investment decisions because the inclusion of ESG factors makes a positive contribution to sustainable development.

Companies can disclose ESG implementation through sustainability reports. According to Christy & Sofie (2023), Indonesia is generally guided by the Global Reporting Index (GRI) disclosure standards with a focus on three aspects, namely: Environmental, Social and Governance. Environmental aspects can discuss issues related to the business environment and business relations with society, such as issues regarding waste, company energy consumption, CO2 gas emissions, emission reduction policies, and protection and management of natural resources (Nugroho & Hersugondo, 2022).

The social aspect explains the company's relationship with external parties who have ties with the company whose measurements are based on social responsibility information. Examples of this social aspect are gender equality issues, the ratio of women in the management hierarchy, the number of employees, employee turnover rates, and fair trade principles (Nugroho & Hersugondo, 2022). The governance aspect describes the issue of how excellent entity governance is in an entity. Companies need to carry out good governance by implementing a good supervisory function within the company. Examples of issues from this governance aspect are corporate governance disclosure, corruption, and bribery (Nugroho & Hersugondo, 2022).

Firm Value

Firm value is a situation obtained by the entity as a representation of public confidence in the entity since its establishment until now (Azahra & Hasnawati, 2024). Company value is usually associated with its share price so that investors can consider making investment decisions based on the company's share price (Christy & Sofie, 2023). Investors tend to assess companies by linking to stock prices because market participants tend to acquire promising stocks in the future. If the demand for shares is high, it is in line with the increase in the company's share price, which indicates that the company's value is increasing as well (Fahri et al., 2022).

Optimal company value is the main goal of the entity that can be improved by increasing the welfare of shareholders because this company value is very important to show how well an entity is performing. Firm value in this study is confirmed by the Price to Book Value (PBV) proxy. This proxy is an indicator that is generally often used because in PBV it is explained that the higher the value of the company based on PBV means the higher the level of welfare of investors which shows an increase in company value (Khoirunnisa, 2022).

Audit Quality

Audit of financial statements is carried out with the aim of ensuring the reliability of financial statements presented by management to recipients of financial statement information in the process of determining business decisions (Guna & Herawaty, 2010). Therefore, the quality of financial reporting audits is considered important because it can improve the quality of a company's financial reporting.

Based on Deangelo (1981), audit quality is the auditor's probability of finding material errors in the financial statements and reporting errors found to users of financial statements. One of the quality components in financial reporting is audit quality because the better the audit quality of financial statements, the better the credibility of a company's financial reporting. Measurement of audit quality can be measured based on input from the ability of the audit process to increase data certainty and accuracy of information on the output of the audit results (DeFond & Zhang, 2014).

Audit quality is generally said to be quality if the auditor believes in the fairness of the financial statements that have been prepared by the client. Audit quality can be analysed from several indicators, namely business continuity opinion, earnings quality, and KAP size. Previous research by Deangelo (1981) states that one of the components in determining audit quality is the size of the Public Accounting Firm. Audit quality obtained by Big Four KAP is considered to provide superior quality or standards compared to Non Big Four KAP. This is based on clients who state that auditors at Big Four KAP have received international recognition and have employees who tend to be careful in carrying out audit procedures, so it is considered that the audit results from Big Four KAP are of higher quality.

Hypothesis Development

This study involves the dependent variable in the form of Firm Value, and involves one independent variable, namely Environmental, Social, and Governance (ESG) Disclosure. Meanwhile, there is one moderating variable, namely Audit Quality.

1. The Effect of ESG Disclosure on Firm Value

One of the company's targets is to increase its value, which can be seen from increasing the prosperity of its shareholders (Mulyani & Solin, 2019). In addition to considering financial factors, currently investors also pay attention to the importance of non-financial factors related to company sustainability. ESG disclosure can act as one of the factors considered by market participants when making decisions (Azahra & Hasnawati, 2024).

This is empirically tested by Fuadah et al. (2022), who found that firm value is positively and significantly influenced by ESG disclosure. This is in line with signalling theory which conveys that ESG disclosure can provide information related to the performance and good image of the company by sending positive signals to market participants which will affect the increase in stock prices along with an increase in the value of a company (Yu & Xiao, 2022). Signaling theory in the context of ESG is used to signal to investors the company's commitment and responsibility to sustainability practices. Companies that are strongly committed to ESG disclosure generally have a more positive image in the eyes of shareholders, which can increase the value of the company. Furthermore, entities that are active in integrating ESG principles into business strategies can also achieve an advantage in competition that can affect the increase in profits and firm value.

In Delvina & Hidayah's research (2023) also obtained results where ESG performance has a positive and significant effect on firm value. This finding reveals that the better the entity's ESG performance will have a good impact on the company's value, which is supported by the view of legitimacy theory. ESG performance is seen to increase legitimacy through corporate strategy and can reduce risk for the company so that it can contribute to increasing firm value (Yu & Xiao, 2022).

In legitimacy theory, prioritising ESG disclosures can enable companies to meet stakeholders' expectations regarding ESG issues, which are becoming an important aspect today. This can be done by companies to increase their social legitimacy. Companies with strong legitimacy are often

able to access resources at a more affordable price because stakeholders believe in the legitimacy of the company so that they can partner with the company by selling their services to the company at a more competitive price. Therefore, it is essential for entities to maintain their legitimacy in the eyes of stakeholders and society. Companies that proactively address ESG issues can enhance their legitimacy in the eyes of society, which can result in increased firm value.

In addition, according to research by Manurung & Ulpah (2023), the implementation of ESG also has a positive and significant effect on firm value. The study by Manurung & Ulpah explains that the implementation of ESG in a company is able to minimise information asymmetry and also potential conflicts with stakeholders. Buallay's research (2019) also concluded that empirically, ESG disclosure has a positive influence on firm value, this happens because an increase in ESG disclosure will benefit stakeholders.

In general, empirical evidence tends to illustrate that the higher the ESG disclosure, the higher the firm value. Based on the above arguments, this study proposes the following hypothesis:

H1: Environmental, Social, and Governance (ESG) Disclosure has a positive effect on Firm Value

2. The effect of Audit Quality on the relationship between ESG Disclosure and Firm Value

Good audit quality tends to provide greater assurance to stakeholders that the company's ESG disclosures are accurate and reliable (Samy El-Deeb et al., 2023). Based on the agency theory by Jensen & Meckling (1976), auditing is the main monitoring method in reducing information asymmetry, limiting opportunistic behaviour, and improving the performance and disclosure of ESG (Agyei-Mensah, 2019). Audit quality is considered important because it gives stakeholders confidence that the information disclosed by the company is valid so that stakeholders can increase confidence in the sustainability of the company which will also affect the increasing value of a company.

In line with signal theory, audit quality as part of good corporate governance provides a positive signal to market participants so that it can strengthen the positive effect of ESG disclosure on firm value or weaken the negative effect of ESG disclosure on firm value.

Based on the research of Samy El-Deeb et al. (2023) obtained results showing that audit quality is more relevant in regulating the relationship between ESG Disclosure and firm value. Samy El-Deeb et al. provide evidence that high audit quality will lead to an increase in the relationship between ESG and firm value. Companies with good ESG disclosure supported by optimal audit quality tend to obtain higher firm value. Therefore, ESG disclosure must go through the best audit procedures to ensure audit quality so that ESG information can be consistent and acceptable to stakeholders.

Dakhli (2022) also found that audit quality has the potential to influence the relationship between sustainability disclosures consisting of environmental, social, and governance dimensions to firm performance. Audit quality is considered an important governance feature in internal control in companies, so it can contribute to higher firm value. On the basis of these arguments, this study proposes the second hypothesis as follows:

H2: Audit Quality strengthens the positive influence of Environmental, Social, and Governance (ESG) Disclosure on Firm Value.

METHODOLOGY

Empirical Research Model

This research applies a quantitative approach as a form of research. The following is a multiple linear regression analysis model in testing the research hypothesis:

$$VALUE_{i,t} = \alpha + \beta 1 ESG_{i,t} + \beta 2 KA_{i,t} + \beta 3 GROWTH_{i,t} + \beta 4 ROA_{i,t} + \beta 5 AGE_{i,t} + \beta 6 DER_{i,t} + \varepsilon \quad \text{.....(1)}$$

$$VALUE_{i,t} = \alpha + \beta 1 ESG_{i,t} + \beta 2 KA_{i,t} + \beta 3 ESG{*}KA_{i,t} + \beta 4 GROWTH_{i,t} + \beta 5 ROA_{i,t} + \beta 6 AGE_{i,t} + \beta 7 DER_{i,t} + \varepsilon \quad \text{.....(2)}$$

The focus of this study is on the coefficients β1 in Model 1 and coefficient β3 in Model 2. The coefficient β1 in Model 1 shows the effect of ESG disclosure on Firm Value. The coefficient β3 in Model 2 shows the moderating effect of Audit Quality on the relationship between ESG disclosure and Firm Value. This study predicts that ESG disclosure will increase Firm Value so that the coefficient β1 in Model 1 will be positive. Then, this study suspects that Audit Quality will strengthen the positive effect of ESG disclosure on Firm Value so that the coefficient β3 in Model 2 will be positive.

Definition of Operational Variables

This study uses the Price to Book Value (PBV) proxy which is used in assessing the dependent variable, namely firm value (Franita, 2018). Environmental, Social, and Governance Disclosure is the independent variable tested in this study. This variable is measured by taking the ESG Disclosure score obtained from the BGK Foundation website. ESG Disclosure score is measured in the range of 0% to 100%. Where the higher the ESG Disclosure score of a company, it can be said that the more complete the disclosure of the company's sustainability report. BGK Foundation calculates the ESG Disclosure score through analysing the company's sustainability report that has been disclosed in detail in accordance with the Global Reporting Initiative (GRI) Standards and then identifying 33 important ESG factors through the Environmental, Social, and Governance components.

The role of audit quality in this study is as a moderating variable. The audit quality proxy used in this study is expressed by Big 4 and Non Big 4 KAP. Big 4 KAP is considered to have a reputation that needs to be upheld and a higher level of independence, therefore the input and output of audits by Big 4 KAP guarantees superior quality (Deangelo, 1981). The Big 4 KAPs consist of Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG). The moderating variable in this study is measured by a dummy variable or will be given a value of 1 if the entity is audited by the Big 4 KAP and will be worth 0 if the entity is audited by another KAP (Situmorang & Bimo, 2023) (Dakhli, 2022).

The control variables of this study include sales growth (GROWTH), return on assets (ROA), company age (AGE), and debt to equity (DER). Sales growth is measured by the formula (Salest-Salest-1)/Salest-1. ROA is measured by the formula Net Income/Total Assets. AGE is measured

by the formula Year of Observation - Year of Establishment of the Company. DER is measured by the formula Total Debt/Total Equity.

Research Sample and Data Analysis Technique

The population for this study includes all companies outside the financial sector that have gone public and are listed on the Indonesia Stock Exchange (IDX). From this population, 96 companies were taken. This sample selection was carried out using a purposive sampling method with selection criteria including: listed as issuers on the IDX (previously the Jakarta Stock Exchange) at least since 2018, having an ESG Disclosure score from the Bumi Global Karbon (BGK) Foundation for the 2018-2021 period, and data for all variables used in the study are available. For the 96 sample companies, this study uses data from 2018-2021 with the final number of research observations reaching 384 firm years. The OLS (Ordinary Least Square) method was used in this study to test the research hypothesis.

RESULTS

1. Descriptive Statistics

Table 1 below shows descriptive statistics for 96 sample companies with the observation period 2018-2021. The final sample size obtained is 384 firm years.

TABLE 1

DESCRIPTIVE STATISTICS FOR 96 FIRM SAMPLES (384 FIRM-YEARS)

Variable	Minimum	Maximum	Mean	Standard Deviation
VALUE	0,1866	60,6718	3,0281	7,4444726
ESG	0,0500	0,9300	0,2578	0,1669485
KA	0	1	0,6782	0,468
GROWTH	-0,7078	0,9975	0,0804	0,2799771
ROA	-0,2510	0,4468	0,0605	0,0773291
AGE	3	47	22	10,774
DER	0,0127	5,5339	1,2828	1,1224865

Variable definition:

VALUE= Firm value (PBV=Price to Book Value)
ESG= ESG Disclosure
KA= Audit Quality (1 for Big Four, 0 for Non Big Four)
GROWTH= Firm Growth (Sales t-Sales t-1)/Sales t-1)
ROA= Profitability, Return on Assets (Net Income/Total Assets)
AGE= Firm Age
DER= Leverage (DER=Debt to Equity Ratio)

2. Results of Hypothesis Testing

Table 2 below presents the results of testing all hypotheses proposed in this study. Model 1 has an r square value or coefficient of determination of 0.496, which means that 49.60 per cent of the variation in the dependent variable can be explained by the independent variables in the model. Then, the significance test gives a calculated F value of 31.965 with a significance level of 0.000. This magnitude indicates that at $\alpha = 1$ per cent, the regression model can be used to predict the

dependent variable or it can be said that the independent variables together have an influence on the dependent variable. Meanwhile, Model 2 also shows similar results with an r square of 0.501 and an F value of 27.832 (significance 0.000).

TABEL 2

HASIL PENGUJIAN HIPOTESIS PENELITIAN

This table shows the results of hypothesis testing using 384 firm-years samples. The research models are as follows:

Model 1

VALUEi,t = α + β1ESGi,t + β2KAi,t +β3GROWTHi,t + β4ROAi,t + β5AGEi,t +β6DERi,t + Ɛ

Model 2

VALUEi,t = α + β1ESGi,t + β2KAi,t + β3ESG*KAi,t + β4GROWTHi,t + β5ROAi,t + β6AGEi,t + β7DERi,t + Ɛ

		Model 1			Model 2		
		Coef.	t Value	Sig.	Coef.	t Value	Sig.
Intercept (Constant)		-5,020	-4,123	0,000	-3,735	-2,467	0,014
ESG	β_1	-3,350	-1,435	0,153	-9,453	-1,937	0,054
KA	β_2	-1,305	-1,429	0,155	-3,283	-1,976	0,050
ESG*KA	β_3				7,855	1,423	0,156
GROWTH	β_4	-1,789	-1,275	0,204	-1,811	-1,294	0,197
ROA	β_5	62,203	11,909	0,000	62,251	11,949	0,000
AGE	β_6	0,145	3,724	0,000	0,152	3,880	0,000
DER	β_7	2,325	6,611	0,000	2,373	6,734	0,000
F Value		31,965 (0,0000)			27,832 (0,0000)		
R Square		0.496			0,501		

Variable definition:

VALUE= Firm value (PBV=Price to Book Value)
ESG= ESG Disclosure
KA= Audit Quality (1 for Big Four, 0 for Non Big Four)
GROWTH= Firm Growth (Sales t-Sales t-1)/Sales t-1)
ROA= Profitability, Return on Assets (Net Income/Total Assets)
AGE= Firm Age
DER= Leverage (DER=Debt to Equity Ratio)

* Signifikan pada α=10%
** Signifikan pada α=5%
*** Signifikan pada α=1%

The results of the first hypothesis testing show that ESG Disclosure has a negative effect on VALUE. Table 2 shows that ESG obtained an unstandardised b worth -3.350 and a two tailed significance value of 0.153, therefore to get the direction of the results of this study it is necessary to make it one tailed with the acquisition of a significance value of 0.0765 or smaller than 10%. The hypothesis proposed in H1 has a positive direction. Therefore, since the direction is not in accordance with the proposed hypothesis, H1 in this study is rejected. So it can be concluded that good ESG will weaken the company value proxied by PBV.

Meanwhile, referring to Table 2, the ESG*KA interaction variable obtained an unstandardised b of 7.855 with a two tailed significance value of 0.156, therefore to get the direction of the results of this study it is necessary to make it one tailed with a significance of 0.078 or less than 10%. The

hypothesis proposed in H2 has a positive direction, so H2 in this study is accepted. So it can be concluded that the moderating variable KA is able to strengthen the correlation between ESG and VALUE.

DISCUSSION

The Effect of ESG Disclosure on Firm Value

The first hypothesis test results as evidenced in Table 4.15, conclude that the first hypothesis in this study is rejected, where ESG Disclosure has a negative effect on VALUE (firm value). The results of this study provide evidence that if Environmental, Social, and Governance (ESG) disclosure is done well, it will weaken the company's value (VALUE). The findings in this study contradict signalling theory and legitimacy theory. The concept of signalling theory states that the disclosure of non-financial information regarding environmental, social, and governance issues is able to provide a good image for the company because it sends positive signals to investors which will affect the increase in firm value (Yu & Xiao, 2022).

However, in this study, it is evident that these non-financial objectives will hinder the main objective of the company, which is to increase the prosperity of stakeholders. ESG disclosure has not been the main factor considered by market participants in the investment decision-making process because market participants tend not to respond well to the signals provided and consider the activities disclosed in the ESG report to be too expensive and detrimental to them (Sulistyawati & Dwi, 2023).

Furthermore, the results of this study are also inconsistent with legitimacy theory, which asserts that management can influence public perception with ESG disclosure. Contrary to the theory, in this study it is evident that companies that focus too much on external legitimacy may neglect their own long-term interests. This can happen if the company incurs excessive costs to meet non-financial objectives or ESG expectations and neglects the primary objective of earning profits and maximising the wealth of its stakeholders.

The results of this first hypothesis test contradict the findings by Delvina & Hidayah (2023), Arofah & Khomsiyah (2023), and Buallay (2019) which reveal that ESG disclosure significantly has a positive effect on firm value. However, the results of this hypothesis test are in line with research conducted by Xaviera & Rahman (2024), Prayogo et al. (2023), Febrianty et al. (2023), and Dihardjo & Hersugondo (2023) which prove that ESG Disclosure has a negative effect on firm value. This is because companies must incur more additional costs in order to disclose higher ESG standards, so that investors become less interested and can reduce the value of the company. The lack of public knowledge about sustainability investment may also contribute to the negative impact of ESG disclosure on firm value in Indonesia (Sonny & Lubis, 2023).

The effect of Audit Quality on the relationship between ESG Disclosure and Firm Value

Testing the effect of the relationship between audit quality (KA) and ESG Disclosure on VALUE (firm value) in H2 states that audit quality is proven to strengthen the relationship between ESG Disclosure and VALUE (firm value) proxied by PBV. Given the test result of H1 which shows that ESG Disclosure has a negative effect on firm value, the test result of H2 shows that audit quality weakens the negative effect of ESG Disclosure on firm value.

In line with agency theory, this study considers that a quality audit is one way to reduce

information asymmetry and is able to limit management's opportunistic behaviour so that ESG disclosure can be accepted by stakeholders and as a result there is an increase in firm value (Dakhli, 2022). Strong audit quality can also encourage more reliable, consistent and accurate ESG disclosures. So that with a high level of trust in ESG information reports can also increase investor confidence in the entity's sustainability prospects which ultimately affect the increase in firm value.

This finding is also in accordance with signalling theory which proves that audit quality as part of Good Corporate Governance (GCG) does provide positive signals to market participants. Better audit quality indicates that the financial information presented by the entity is more reliable. Market participants also tend to be more confident in the financial information provided by the entity which will have a positive impact on increasing investment in the entity. Good GCG strengthens the trust of market participants in the entity's commitment. Therefore, the negative effect of ESG on firm value can be weakened by the presence of GCG.

This study contradicts the research of Situmorang & Bimo (2023) which states that audit quality weakens the relationship between ESG Disclosure and firm value. Nevertheless, the results of this study are in line with research by Samy El-Deeb et al. (2023) and Dakhli (2022), which prove that audit quality as a moderator is able to strengthen the effect of ESG Disclosure on firm value. Therefore, audit quality, which is reflected in the Big 4 KAP certification of company reports and has a high disclosure score, tends to increase firm value.

CONCLUSION

This study examines the effect of ESG disclosure on firm value in 96 Indonesian public companies that have ESG scores on the BGK Foundation. This study also examines whether the effect of ESG disclosure on firm value will be different for companies with different audit quality. In testing the hypothesis, this study regresses the cross-section of Firm Value on ESG disclosure and the interaction between ESG disclosure and Audit Quality, using data on 96 companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2021 with a total of 384 firm-year observations.

The results showed that ESG disclosure has a negative effect on Firm Value. Compared to companies with poor audit quality, companies with good audit quality show a lower negative effect of ESG disclosure on firm value. This study implies that Indonesian companies2 tend not to respond positively to ESG disclosures. However, the presence of good audit quality can reduce this negative perception.

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