Environmental Investment and Good Corporate Governance as Determinants of Sustainable Company Value

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Abstract. The purpose of this study is to investigate how environmental investment and good corporate governance (GCG) affect sustainable company value where company size as control variable. This research uses the secondary data on 30 manufacturing companies that listed in the Indonesian Stock Exchange for the periods of 2020 to 2023. Classical assumptions were checked prior to using the multiple regression model. The result is evidential that the investment on the environment does not affect a lot significantly for sustainable corporate value, which are informing that the Indonesian capital market was not totally recognize to allocate funds budget for environment as a long-term strategy to form creation value. Instead the effect of good corporate governance on increasing the sustainable corporate value becomes positive due to a kind of investors firm's attention on transparency, accountability, and internal control system. Company size (as reflected by size) also failed to exert influence or to moderate the relationship of 2 independent variables with company value. Since the results are robust these implications suggest that it's easier to our assumption that the environmental decent corporate governance is an issue of perception in the market and this investment must be communicated as a strategic tool, not only for burden. The findings of this study guide the management to invest the resources efficiently and are useful for regulators in fostering the behaviour of ESG that is consistent with investor expectation in Indonesian capital market.

Keywords: Environmental Investment, Good Corporate Governance, Company Size, Sustainable Corporate Values, Indonesian capital market.

1 Introduction

A business is based on some long-term and short-term goals. The purpose of a company is to produce short-run profits as well as long-term value for their owners or shareholders, and maximize the company's value in terms its share price [1]. A firm's (enterprise) value is an important financial concept that describes the inherent strength of a company as an individual entity. This value captures what investors think about the company as measured by price and is based on user views along with all available

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market data including market valuation indicators (technical, economic, social and fundamental). [2] The better the value of the firm, the better its future prospects are and who in turn, it affects to increase the wealth of shareholders [5].

Various factors can affect company value, one of which is environmental investment. Environmental investments disclosed by companies will improve their reputation [4]. Environmental investment is an effort to protect the environment and minimize the environmental impact of companies [5]. The objective of environmental investment is to reconcile the environment and economy, that is to provide environmental protection alongside corporate profits [6]. Many scholars are keen on investigating corporate environmental performance and firm value in light of the burgeoning concern for environment. The role of innovation (R&D) and conservation among the factors influencing environmental performance as well as company value are identified in several research [7].

Good corporate governance is also a signal that can raise the value of a company. Corporate governance is described as a mechanism that restrains and monitors the management in order to maximize performance without sacrificing stakeholder costs [8]. It is believed that corporate governance mitigates agency problems [9]. Good Corporate Governance (GCG) term is defined on how the social responsibility implemented inside the company [8]. There are essentially a pair of elements stressed in this idea. First, the establishment of the rights of shareholders to receive timely and accurate information; and second, the obligation of the company to disclose all information relating to company information regarding the performance, ownership, and other stakeholders in an accurate, timely, and transparent manner [10].

Non-financial factors such as environmental investment and good corporate governance (GCG) are becoming increasingly attractive to study due to their increasingly significant role in determining company value, including their long-term impact on company value, in contrast to financial factors, which are more short-term in nature. Currently, many investors not only look at financial reports but also consider environmental, social, and corporate governance aspects. Companies with good governance tend to attract more investment because they are considered more stable and have lower risks in the long term [11].

In this study, Sustainable Company Value refers to sustainable long-term company value above short-term financial performance, which is the companys awareness of creating long-term value through environmental investment (environmental investment) and social investment (social investment) (which can be channeled to the implementation of good GCG). While usually the dependent variable is measured with a financial measure (e.g., Tobin's Q or Price to Book Value), the notion of 'sustainability' in this context denotes that investments made with ESG (Environmental, Social, Governance) factors in mind are assumed to be a long-term investment that leads to an eventual increase in the intrinsic value of the compa-ny. On the one hand, as will be elaborated on in the findings and discussion, this long-term values may not yet been incorporated in the Indonesian capital market, resulting on the short-term negative impacts.

Firm size is another feature which has been controlled for in prior literature on firm value. Larger firms typically have better access to capital markets, more product or service diversification and greater scale economies that will help grow the value of the company. On the other hand, smaller firms may encounter resource constraints and market frictions that somehow will be incorporated into their value. Therefore, controlling for company size allows researchers to gain a more accurate understanding of the impact of other factors on company value without bias from size differences.

Although many studies [12], [13] state that environmental investment (EI) has a positive impact on company value, recent empirical findings [14], [15] actually show a negative impact, especially for companies with limited liquidity. This phenomenon creates ambiguity for management and investors in allocating resources for environmental initiatives. On the other hand, a strong consensus has been formed regarding the positive impact of good corporate governance (GCG) [16], [17]. However, a critical question arises: is the effectiveness of EI and GCG in creating value consistent across all types of companies, or is it influenced by contextual factors such as company size? Meanwhile, empirical studies examining these dynamics specifically in the Indonesian capital market, especially post-pandemic, remain limited.

Adopting the background above, this study will uncover and explain the existence of interest between investing in environment on good corporate governance with value of companies using a proxy size company as control variable in financial market, particularly Indonesia that is dynamic. Research on EI and GCG to firm value in the prior studies exhibit also excluded results, particularly for the EI variable. The study aims to fill this void by concentrating on companies in the manufacturing sector that are operated in Indonesia for the period 2020-2023 as a post-pandemic recovery era with increasing pressure of sustainability and governance.

There is two novelty about this study. It first tests whether company size, one of the control variables that is assumed to reinforce the relationship between EI, GCG, and company value. Third, linking our findings which contrary to expectations (EI has negative effect) with agency theory and short-term market pressure relates to opportunistic behavior and financial reporting which has rarely been expanded comprehensively in previous studies in Indonesia.

2 Literature Review

2.1 Stakeholder Theory

Internal and external parties who have an influential or influenced, direct or indirect relationship with the company are known as stakeholders. Stakeholder theory stipulates that a corporation is not solely an entity that pursues its own interests, but rather that it has the duty to benefit all its stakeholders. All stakeholders have the entitlement to receive information regarding the activities of the company that may be relevant to their decision-making [18]. Therefore, the existence of a firm greatly relies on the level of sup-port that stakeholders commit to give to firms.

Staheholder theory is a central reference for this study. Environ invest is the commitment a company makes to its external stakeholders, like the community and nature that are influenced by company's operations. In the meantime, corporate Responsible for transparencyA direction Corporate governance in accountabilityFourways hotelConference Capacity Fairtransportation of goods balearAbbr Find exclusive but is a system through which corporations are directed and controlled. From this standpoint, sustainable corporate value is created by the company's ability to fulfill expectations and add value for all of its stakeholders (not only shareholders).

2.2 Signal Theory

The signaling theory is a theory in which the information provider can decide what/how information would show, while the information receiver will interpret the information received as they want [19]. Investor signaling theory is a signal of the in-formation that investors will need to decide and determine whether they will invest shares in the company concerned [20].

Signal theory emphasizes the relevance of offered information by companies in affecting the investment choices by outside parties. Truly, this data is of incredible significance to financial backers and business entertainers since it offers a clarification to undertakings because of the past and present states of the organization and its future prospects that will affect the value graph. The information presented must be complete, relevant, accurate, and timely, as this is essential for investors in the capital market to conduct proper analysis and make informed investment decisions [21].

A theory capable of explaining how the market is informed about corporate policies is signaling. Firms should interpret high disclosure from their investments in environment as a favorable signal to investors regarding long-term commitment to sustainability. But if the market views it as a cost attached to lower profits, then the signal is discouraging. As a result, the use of strong GCG indicates an opposite message about the quality of management and also implies low risk agency, which can be considered as a signal to attract outside investor and to improve firm value. This study tries to analyse whether or not these signals are accepted and understood as meant by Indonesian capital market.

2.3 Environmental Investment on Sustainable Company Value

The production of goods and services performed by the company causes an impact on the environment due to the operational activities of the compa-ny, which can cause losses to the public, the environment, and also the sustainability of the company's business itself. Environmental investment will drive corporations to be green industries [7]. Moreover, companies falling behind in "green" investments may well find themselves at a competitive disadvantage in the marketplace, as noted above [18] and so one hand for environmental or green investment knowledge better improved and it as a drive for long-term and understand performance too. This supports[12, 13] that the profitability and performance of environmental investment have a positive effect on the value of company.

- **H1.** Environmental investment has a positive effect on company value.

2.4 Good Corporate Governance for Sustainable Company Value

The Forum for Corporate Governance (FCGI) defines corporate governance: "Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Basically, it refers to how companies are run or managed. It is about who makes what decisions and how they are taken. Who should be paid how much in terms of dividends, bonuses or other types of compensation for results achieved by those running on behalf of the organisation? The concept is thus a direct means by which relations between shareholders, company management, creditors, the government, employees and other internal and external stakeholders are regulated in regard to their respective rights and obligations. (8) And special thanks to FCGI for pointing out that the original goal of corporate governance in itself was "to create added value for all stakeholders." The Organization for Economic Cooperation and Development (OECD) formulated the fundamental principles of good corporate governance as: (1) Fairness; (2) Disclosure/Transparency; (3) Filtability; (4) Responsibility; (5) Independence. According to Purwaningrum dan Hayati [16] corporate governance really matters for the value of the firmWhile A. et al. Gusriandari, On the consciousness of companies about corporate governance (GCG), the interest of company management in long-term effects of GCG implementation and managerial and institutional ownership could influence the effect by corporate governance on firm value [17].

- **H2.** Good corporate governance has a positive effect on sustainable corporate value.

2.5 Company Size on the Relationship between Environmental Investment and Good Corporate Governance with Company Value

Company Size a company's size was traditionally characterized by assets, prior to their inclusion in formal financial statements. But that big asset pool makes "stable" for firms. They can contribute profits to investors, and when such a company is listed from A-share to the others, its stock price will rise. In round-up with its stock directorship, if a state is small (total resources), a batch will be costly. If a company is small, the perch on which you have a mouth is closer to the ground. Moreover, although a company, especially a big one, gains strength through stronger wealth & ability, the amount of investors who place their trust – through publicly bought shares – greatly increases. This then drives up prices for stocks. Based on the above explanation, the following conjecture can be made:

- **H01.** Company size does not affect the relationship between environmental investment and sustainable company value
- **H02.** Company size does not affect the relationship between good corporate governance and sustainable company value

3 Research Method

This study, which is categorized as explanatory research (which aims to explain a relationship of variables by adding formulated assumptions), uses documentary data (based on annual reports and sustainability reports of manufacturing companies that are listed on the Indonesia Stock Exchange. In this study, the data source is secondary data from the website of the Indonesia Stock Exchange [22].

The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange for on the 2020-2023 while the research samples in this study are 30 manufacturing companies listed on the Indonesia stock exchange for the 2020-2023. Data were collected through pur-posit-ive sampling. This indicates that the sample was non-random such that the elements of the sample were meant to fulfil certain characteristics.

4 Results

4.1 Multiple Linear Regression Analysis

Table 1. Multiple Regression Hypothesis Testing Results

Independent Variable	Coefficient	t	Sig
Constant	1,116		
EI	-0,537	-6,781	0,000
GCG	0,056	3,790	0,000
a = 5% = 0,05			

Source: Data Processed Using SPSS 25 (2024)

Multiple linear regression output also shows that environmental innovation (EI) variable is statistically significant and negative to dependent variable (equation 1): when
-0.537. t = 6.781 sig. 0.000 <0.05 Thus, when other variables constant, any increase of unit in EI will cause a 0.537 decrease in the dependent variable. On the contrary, Good Corporate Governance (GCG) provides the opposite result which is positive and statistically significant. With a coefficient of 0.056, t = 3.790 and Sig = 0.000 object scope suggestive at the bottom right corner here thus positive sign is interpreted to increase depending variables value-effect can be interpreted as increased governance and get the value of the dependent variable [28].

4.2 Control Test Analysis

Table 2. Control Regression Test Results

Independent Variable	Coefficient	t	Sig
Constant	21,427		

EI	-0,493	-6,579	0,000
GCG	0,018	1,048	0,297
a = 5% = 0,05			

Source: Data Processed Using SPSS 25 (2024)

In the control regression model, EI remains negative and statistically significant, with a coefficient of -0.493, t = -6.579, and Sig = 0.000 (< 0.05), suggesting that the negative association between EI and the dependent variable is robust after the control test. However, GCG is no longer statistically significant in this model, as reflected by a coefficient of 0.018, t = 1.048, and Sig = 0.297 (> 0.05). This indicates that, under the control regression specification, GCG does not provide a statistically meaningful contribution to explaining variations in the dependent variable at the 5% significance level.

5 Discussion

Since the effect the dependent variables will yield upon independent variables is unclear from table above This study first hypothesis is that higher amounts of environmental investment lead to positive changes in a company's value. In the test results, the environmental investment variable (cname) displays the left-hand bound of your 95% confidence interval with a negative sign before it (-0.537). This means that for a one-unit increase in this variable, 1 company value will drop 0.537 units, and t = 7.781 '< 05 level of significance, thus EI is significantly negative on company value This implies that companies which spend more of their funds on environmental protection measures can be expected to suffer in market value compared with those that do not plague themselves so heavily. For example, RQ1: How is environment investment to our long-term vision (besides reducing air and water pollution) a continuous burden on company capital The findings of this research reinforce the argument that despite its long-term environmental goals, environmental investment in the short term places a heavy financial burden on a company's market value. The results of this study support the first hypothesis as set out by Huang et al. [14], who found that environmental investment has a negative impact on company value. Especially for companies without financial flexibility. The more limited a company's liquidity, the greater the burden imposed by environmental spending. Recent research by Zhang et al. [15] states that corporate financialization, namely the tendency of companies to hold financial assets rather than allocate them to real investments such as environmental projects, can weaken the effectiveness of environmental investment.

The second firm hypothesis in this study is that the value of firm positively affect corporate governance. Looks at to the results that in Table 2 by t-test of part of the test, that t for good corporate gouvernance variable has 3.790 high even it small enough; ie this is negative side and also the value of significance is less than 0.05 <0,05 also the direction is positive of statically sign on firm value. This value is 0.056, which is a positive coefficient, meaning every time you increase GCG, company value will grow by 0.056. The application of good GCG principles, such as transparency, accountability, and fairness, enables companies to demonstrate to investors and other stakeholders that they are managed professionally and responsibly. So that the implementation of good GCG is one of the positive signals for the market that the company is managed, responsive, and transparent, so that investors and stakeholders have more confidence. It indicates how GCG has a role in enhancing the performance of the company but also in enhancing the quality of signals sent to the market which can eventually improve the value of the company. The application of effective GCG makes the company more appealing to investors, decreases cost of capital, and gives sustainable competitive advantage, therefore increases the value of the company.

The greater the scale of a company, the more ineffective are some of the managerial interventions to lift the EI. Company size has a coefficient of −0.493, with t = 6.579 at significance level 0.000 (which is lower than) 0,05, so we conclude that company size has negative relation toward company value and this relation have significance, furthermore this result again give us a prospect that result between EI and Company Value is clear but large company do not influence it. In general, large companies are often assumed to have abundant financial and technical resources to make significant environmental investments, such as implementing clean technology, developing environmentally friendly products, or implementing emission reduction programs. Higher visibility may also encourage large companies to invest more in environmental initiatives to meet public and regulatory expectations. However, this assumption does not necessarily mean that company size directly controls or determines the extent to which these environmental investments will increase company value. Sari and Alwathan [23] conducted research and found that company size was correlated with the low level of environmental disclosure, while the relationship between environmental disclosure and company value may be affected by the size, green innovation or operational efficiency, and the relationship cannot be solely based on the size of the company. Value is not certainly a direct function of increased investment.

The Impact of Corporate Governance and Corporate Value with Company Scale As a Moderating Variable. Based on the test results GCG of 0.018 of which coefficients t-value in regression model of 1.048. This means that GCG has no effect on firm value ($P = 0.297 > 0.05$). The only control variable that is often used in the GCG – firm value relationship is the size of the company. This is sometimes cited as one reason why so many studies show that populations are changing, both in terms of magnitude and direction for different value systems to have the same performance currency, they need to change how much différence they produce every so often. Research which examined the effect of Good Corporate Governance on firm value [24] also indicates that size of company brings significance on the relationship between corporate governance and charge [24] It showed that large companies, compared to other companies which are less in resources, implement GCG more effectively, which creates a higher level of corporate transparency and accountability. This also boosts up investor confidence and in-turn, helps in increasing the value of the company. This indicates that the rationale underlying that large companies are more structure and operationally complex companies are able to execute strong GCG practices which affect the increase of company value directly.

6 Conclusion

In fact, as demonstrated by this study, investments in environmental Here, 'environment' shows the capital market in Indonesia does not fully believe that investment in the environment is a long-term strategy, profitable however as proved by during last sentence The capital market in Indonesia is unwilling to treat its tradition at an investment of national importance. Conversely, good corporate governance (GCG) exerts a great positive influence on the value of the company, which means that if these practices are used the investor's interests will be catered to and image solid. Interestingly enough, company size according to total assets does not have an important role as a control variable in relating environmental investment and GCG with company value. This translates to relatively consistent impact of these two categories on firm value both in large and small firms, so that implementation quality and market perception are far more determinant for value than firm operational scale.

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