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Overinvestment and Environmental, Social, and Governance (ESG) Performance

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Abstract. This study aims to examine the effect of overinvestment, sales growth, board size, firm size, firm performance, and leverage on environmental, social, and governance (ESG) performance. The purpose of this study is whether overinvestment sales growth, board size, firm size, firm performance, and leverage affects environmental, social, and governance (ESG) performance. This study used Descriptive Statistical analysis and Linear Regression Analysis. population used in this study was a group of manufacturing companies listed on the Indonesia Stock Exchange (IDX), but only 29 companies were sampled in this study. The data is taken from 2020-2023. As a result, overinvestment, board size, ROA, and leverage significantly negatively affect ESG performance. However, sales growth has a significant positive effect on ESG performance. This research's true significance lies in its ability to guide companies in enhancing their corporate social responsibility, enabling investors to evaluate companies with strong ESG performance. Suggestions for further research to consider factors such as expanding the research sample and considering other variables to gain a deeper understanding of determinants include ESG.

Keywords: Overinvestment, ESG Performance, ESG, and CSR

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Introduction

Environmental, social, and governance (ESG) is a series of aspects to consider when investing in companies, which recommends considering environmental issues, social issues, and corporate governance issues (Tsang et al., 2023). ESG has become increasingly popular in recent years, and there are now more than 5,000 Asian investors interested in investing in ESG. ESG criteria consist of three main concepts: environmental, which emphasizes environmental management and the company's impact on the environment; social, which considers the company's impact on society, local communities, and social welfare; and governance, which assesses the quality of corporate governance, including policies, transparency and supervision(Agarwala et al., 2023). Sustainable ESG investment has several benefits, such as increasing company value, saving negative impacts, and gaining creditability. However, sustainable companies must also adhere to ESG investment strategies to ensure their investments are successful and increase company value.

Throughout recent years, environmental, social, and governance (ESG) has become more famous at public and worldwide levels (Pham et al., 2024). This is because ESG has been a subject of interest for some exact and explored studies, and exploration points that address ESG are frequently connected with different viewpoints inside the organization. In the beginning, only large companies adopted ESG because implementing ESG was expensive for companies. On the contrary, Environment, Social, and Governance remain interesting subjects, especially in developing countries like Indonesia. ESG presents an intriguing topic for discussion in Indonesia, as the country's understanding of ESG is not yet optimal, resulting in limited research on the subject, particularly in relation to excessive investment.

Enron, an American energy company, declared bankruptcy in 2001 following the revelation of years of fraudulent accounting(Munawer et al., 2012). This scandal caused thousands of employees to lose their jobs, and Enron's stock value plummeted. This case demonstrates the importance of excellent corporate governance (G) as an ESG aspect. Investors and consumers are increasingly aware of the environmental, social, and governance (ESG) impact of companies, and they do not want to invest in companies that are not ESG-responsible (Liang & Yang, 2024).

ESG disclosure is an effort to reduce information gaps and resolve agency problems, although every company has considered ESG as an important indicator in explaining their progress (Xiong et al., 2024). Investors use financial reports and ESG disclosures as primary tools for assessing a company. Not only from a financial perspective but also from an ESG perspective, investors look at ESG performance from their perspective.

ESG disclosure began to develop in the 2000s, this concept emerged along with increasing awareness of global issues such as climate change and human rights issues (T. T. Li et al., 2021). Indonesia itself began implementing the ESG disclosure concept in 2009 (Wijayanti et al., 2023). Many countries and regulatory institutions have begun imposing ESG disclosure requirements on companies through regulations or voluntary guidelines. A number of these regulations, such as the European Union's Non-Financial Reporting Directive, are significant steps in mandating ESG disclosures.

Overinvestment occurs when a company has large amounts of idle cash so managers tend to be bolder in investing in high-risk projects where the company will invest in ESG because it is more profitable, both short and long term (Zhang & Kong, 2022). Institutional and individual investors are increasingly prioritizing socially and environmentally responsible investments. Companies with strong ESG commitments are more attractive to these investors, increasing their investor base and access to capital (Bilyay-Erdogan et al., 2024).

Overinvestment is related to ESG disclosure, where good ESG disclosure can provide information to investors and other stakeholders regarding how the company manages various existing risks and ensures the sustainability of its business(Liu et al., 2022). The relationship between overinvestment and ESG disclosure is more related to how companies manage the social and environmental impacts of their investment decisions as well as how corporate governance plays a role in the investment decision-making process.

Several previous studies discussing the influence of ESG on overinvestment have not shown consistent evidence. Research conducted by (Irawan & Okimoto, 2022) revealed that they found little evidence that ESG performance causes overinvestment in companies. Next, research (Zamir et al., 2022) shows the positive impact that CSR disclosure reduces underinvestment in large companies but does not limit

overinvestment. Other research (Benlemlih & Bitar, 2018) revealed that CSR has a significant relationship with investment efficiency.

Several previous studies examining environmental, social, and governance (ESG) on overinvestment are still very limited. Thus, this study aims to explore potential variance in overinvestment among companies listed in the ESG score ranking. In addition, this research seeks to analyze the impact of overinvestment on Environmental, Social, and Governance (ESG) performance. The study mirrors previous research efforts (Kuzey et al., 2023), where the results show a positive correlation between overinvestment and ESG performance. This research was carried out again because there is still very limited research examining the influence of overinvestment on ESG performance. However, this research is different from previous research by adding theoretical concepts used in the research.

Agency Theory

A legally binding understanding frames an agency relationship, where at least one person (chief) requests the administration of another individual (specialist) to carry out specific tasks for their benefit. The agent is responsible for making decisions. When the two players intend to enhance their individual benefits, the specialist may act against the principal's interests(Jensen & Meckling, 1976). Agency issues stem from the gap between the head and the specialist, resulting in data inconsistencies. This data hole permits directors to have better understanding of the organization's inner circumstances and future possibilities comparred with proprietors (Septiadi et al., 2017). According to agency theory, management engages in real revenue management and accrual to achieve predetermined financial targets because of the divergent interests of owners and management (Smulowitz et al., 2019). However, this strategy can negatively impact a company's ESG performance.

ESG sets venture practice rules for organizations that adjust and execute their strategies in accordance with ecological, social and administration standards. With regards to ESG execution, organization hypothesis makes sense of the connection among overinvestment and ESG. company should focus on environmental, social and governance obligations to work on the proficiency of their ventures (Lin et al., 2023). The company's long-term viability will ultimately benefit from this increase in public support and trust. The exploration discoveries highlight the unmistakable and significant connection between's friendly exhibition and monetary results. Particularly, enhancing social performance has the potential to enhance financial performance, and enhancing financial performance has the potential to motivate businesses to enhancing social performance. Appropriately surveying and further developing these interconnected viewpoints is basic to by and large achievement.

Ligitimacy Theory

Legitimacy theory is a useful framework for understanding the relationship between ESG practices, ESG disclosures, and ESG performance (Emma et al., 2024). Companies that understand legitimacy theory can use it to develop effective ESG strategies that will help them gain and maintain legitimacy from key stakeholders. Legitimacy theory can help explain why companies may overinvest in ESG practices (Karaman et al., 2018). Legitimacy theory explains that companies are motivated to build and maintain public perceptions that they operate legitimately and by social norms and values. Companies use overinvestment as a strategy to demonstrate their commitment to ESG principles and to gain approval from stakeholders in the ESG context(Sun, 2024).

Companies overinvest in ESG practices as a way to signal their status and credibility. This can be a strategy to attract ESG-focused investors, improve a company's reputation, and gain a competitive advantage. Companies may overinvest in ESG practices to improve their public image and avoid criticism of their environmental and social impacts. This can be a strategy to manage public perception and avoid reputational risks (Lee & Raschke, 2023).

Hypothesis Development

Overinvestment In ESG Performance

Overinvestment is the uncertainty of purchasing excessive company assets using excess funds resulting from the sale of company assets or return of capital (Liu et al., 2022). Several factors that can influence overinvestment include direct ownership of the company and concentration of company share ownership. Studies also show that companies with innovation-oriented business strategies tend to overinvest. Apart from that, overinvestment can also have an impact on the quality of a company's financial reports. Therefore, it is important for corporate management to prioritize corporate profits over

personal profits in pursuing investments, in accordance with the principles of agency theory.

Studies exploring the relationship between overinvestment and ESG performance, such as (Kuzey et al., 2023) featuring that overinvestment causes varieties in ESG divulgence in the space of environmental, social, and governance execution in various ways. In the first place, overinvestment causes varieties in the four elements of social execution (work, common liberties, local area, and item obligation) and three components of natural execution (asset use, outflows, and eco-development), it doesn't cause varieties in the three administration execution aspects. oversee aspects (the board, investors, and CSR procedure). Second, overinvestment is positively correlated with variations among these factors in the three dimensions of environmental performance in individuals with high environmental performance, whereas overinvestment is negatively correlated with variations in groups with low environmental performance. Thirdly, high social performers have a positive correlation with variation in these four social performance dimensions, whereas low social performers have a negative correlation with overinvestment. Fourth, neither low-administration players nor high-administration players fully associate overinvestment with variations in the three administration execution aspects. Consequently, the examination results show that overinvestment doesn't consistently affect the natural, social, and administration points of support among low and high-ESG entertainers.

This research will examine overinvestment and its relationship with ESG performance. The hypothesis to be formulated for this study is Hypothesis 1 (H1): Overinvestment has a positive impact on Environmental, Social, and Governance (ESG) performance.

Sales Growth in ESG Performance

Sales growth is the increase in sales of a product or service over time and is an important indicator of business performance (Chen et al., 2020). This can be measured by comparing sales year-over-year, quarter-over-quarter, or month-over-month. Sales growth is a strategic indicator used in decision-making by executives and boards of directors and influences the formulation and execution of business strategies. For companies, sales growth is one of the important indicators to measure company achievement.

Studies that explore the relationship between sales growth and ESG performance, such as (Kuzey et al., 2023) revealed that there is a positive influence between the disclosure of information about environmental activities and sales growth in a company.

This research will examine sales growth and its relationship with ESG performance. The hypothesis to be formulated for this study is Hypothesis 2 (H2): Sales growth has a positive impact on Environmental, Social, and Governance (ESG) performance.

Board Size in ESG Performance

A board of directors' size can have a significant impact on its effectiveness. While there is no one-size-fits-all approach, the ideal board size can vary depending on the organization's specific needs and circumstances (Tampakoudis et al., 2022). Larger boards may have the advantage of representing a wider range of perspectives and sharing the workload, but they may also face challenges in engaging each member and scheduling meetings. Conversely, people often observe smaller boards as more collaborative and effective in managing oversight. Agency theory supports the explanation that supervisors serve as specialists for the board of directors or investors. In a company, the board of directors is known as an internal party that carries out the company's obligations, duties, and management (Miguel & Pedro, 2023). The board of directors bears complete responsibility for all types of management and tasks within the company, as they are fully responsible for achieving organizational goals.

Studies exploring the relationship between board size and ESG performance, such as (Disli et al., 2022) that the independence of the board has a positive impact on two measures of sustainability performance, namely environmental performance and governance. Although board size did not affect aggregate sustainability measures (ESG scores, ESG controversies, and ESG composite scores), the authors found a negative relationship between board size and governance performance.

This research will examine board size and its relationship with ESG performance. The hypothesis to be formulated for this study is Hypothesis 3 (H3): Board size has a positive impact on Environmental, Social, and Governance (ESG) performance.

Size In ESG Performance

Size is a company classification scale based on the size of the company which can be reflected in the total

assets owned by a company (Xie, 2023). Size influences various aspects of the company, such as management policies, financial performance, and non-financial performance (ESG). Therefore, it is important to understand the right size to evaluate company performance and policies. The influence of size on various aspects of business, including corporate performance and governance, has become a significant research topic. Therefore, within the framework of agency theory, it is important to understand how size can influence behavior and firm performance.

Studies that explore the relationship between sales size and ESG performance, such as (Bissoondoyal-Bheenick et al., 2023) size indicate that large companies tend to invest in ESG activities due to economies of scale to better reflect stakeholder demands. Moreover, according to this perspective, size is an issue in the essence that large companies tend to be more willing to invest in CSR activities due to economies of scale (under the economic perspective of transaction costs) and strategic resources to maintain competitive advantage.

This study will examine the size and relationship with ESG performance. The hypothesis to be formulated for this study is Hypothesis 4 (H4): Size has a positive impact on environmental, social, and governance (ESG) performance.

Firms Performance in ESG Performance

Firm performance can be defined as the results or achievements achieved by company management in carrying out its function of managing company assets effectively during a certain period (Fu et al., 2024). Firm performance includes financial performance, evaluation of company operations and policies in the context of monetary value, as well as the results of many individual decisions made continuously by management (Heo, 2024). Apart from that, firm performance also includes performance measurements as a benchmark so that organizational administrators can see whether a company's performance is good or not from a monetary and non-monetary perspective. Firm performance measurements also provide important data in determining choices regarding company resources and empower managers' performance in channeling company interests (David & Scharfenaker, 2024). Therefore, company performance includes financial and non-financial aspects and is the result of various decisions and policies implemented by company management.

Firms with excellent performance will often disclose more ESG data conducted by their organizations. This is because firms that perform well believe that their presentations should be known to stakeholders (Nabilah Nurdiati, Dewi Susilowati, 2020). The role that firms play in local climate and life in general, will have an impact on firm performance. Decision-making, asymmetric information, control costs, and ESG performance can also influence firm performance according to agency theory. Therefore, within the framework of agency theory, it is important to understand how the dynamics of the relationship between managers and owners can influence firm performance and efforts to reduce these conflicts of interest.

The study of the relationship between firms' performance and ESG (Environmental, Social, and Governance) performance has been a significant research topic. Several studies show a relationship between ESG performance and corporate financial performance. Studies that explore the relationship between firms' performance and ESG performance, such as (Maji & Lohia, 2023) found that ESG performance and its components are positively associated with firm performance.

This study will examine firm performance and its relationship with ESG performance The hypothesis that will be formulated for this study is Hypothesis 5 (H5): The Firm's performance has a positive impact on Environmental, Social, and Governance (ESG) performance.

Leverage In ESG Performance

Leverage is a firm's capacity to meet its monetary commitments either in the short or long term or measure the extent to which a company's conduct is supported by obligations (Rahman et al., 2023). Companies with high leverage tend not to disclose much company data, one of which is disclosing social obligations (Q. Li et al., 2023). This is because the movement of every company that has high leverage will be the center of banking attention, this makes companies have to be more careful in making decisions and running them.

Studies that explore the relationship between leverage and ESG performance, such as (Wang, 2023) show that leverage tends to lead to improved ESG performance, emphasizing sustainability goals and community bonding. Other studies (Adeneye et al., 2023) revealed that ESG scores are positively related to book leverage, indicating that companies are increasing their debt capital through sustainable practices. Therefore, leverage and the level of ESG

risk influence a company's performance separately, and these two factors may affect a company's performance in different ways.

This study will examine leverage and its relationship with ESG performance The hypothesis to be formulated for this study is Hypothesis 6 (H6): Leverage has a positive impact on Environmental, Social, and Governance (ESG) performance.

Research Method

Research Model and Design

This research uses Descriptive Statistics analysis and Linear Regression Analysis. In the analysis, it explains the connection between the independent variable and the dependent variable.

Data Types and Sources

This research was obtained from secondary data originating from the financial reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI). This financial report was taken from 2020 to 2023. The data used is over investment, sales growth, board size, firm size, ROA, and leverage.

Population and Sample Selection Method

All manufacturing businesses that are listed on the Indonesia Stock Exchange (BEI) were used as the population inclusion in this investigation. Data taken from 2020-2023. This sample collection uses a non-probability sampling technique using a purposive ampling method. The criteria are for the author to have ESG data available and have complete financial reports in rupiah units. The number of samples used in this research was 29 companies.

Method of collecting data

This research relies on secondary data sourced from the ESGI dataset available on the Indonesia Stock Exchange (BEI) and annual financial reports taken from the BEI website (www.idx.co.id) and the official websites of each company.

Data Processing Methods

This study uses an independent samples T-Test technique to examine variations in overinvestment, sales growth, board size, size, ROA, and leverage among companies based on their ESG score ranking. Additionally, it uses multiple linear regression analysis was carried out using IBM SPSS Statistics 21 software to explore how overinvestment, sales growth, board size, size, ROA, and leverage affect ESG performance.

Table. 1 Describe process of operation and measurement of research variabels

Variables		Measurement			Source
Dependent Variable	ESG Score	**ESG Score Criteria**			www.idx.co.id
		Risk Score	**Category**	**Description**	
		0-10	Negligible	Considered to have negligible ESG risks	
		10-20	Low	Considered to have low ESG risk	
		20-30	Medium	Considered to have medium ESG risk	
		30-40	High	Considered to have high ESG risk	
		>40	Severe	Considered to have severe ESG risks	
Independent Variable	Overinvestnent	Binary variable for over-investment that takes1 for positive residual values obtained from equation (1), and 0 otherwise			(Kuzey et al., 2023)
	Sales Growth	[net sales (t-1) – net sales (t-2)]/net sales (t-2)]			(Kuzey et al., 2023)
	Board Size	Number of directors on board			(Ellili, 2023)
	Firm Size	Size= Ln (Total Asetit)			(Ellili, 2023)
	Return on Asset (ROA)	ROA= (Net Income)/(Total Assets) ×100%			(Ellili, 2023)
	Leverage	LEV= (Total Liability_it)/ (Total Assets_it)			(Ellili, 2023)

Data Analysis Method

The analysis technique used in this exploration is multiple regression analysis. Before carrying out multiple regression analysis, classical assumptions are first tested, namely normality, autocorrelation, heteroscedasticity and multicollinearity tests.

Result and Discussion

Descriptive Statistics

Table 2. Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
ESG	96	17.5600	63.2500	37.146042	10.5532687
OVER_INVESTMENT	96	-4.1679	64.8602	.000000	6.8241245
SALES GROWTH	96	-.4014	1.4269	.096583	.2698195
BOARDSIZE	96	2	15	6.73	2.369
SIZE	96	29	34	31.22	1.001
ROA	96	-.0300	.3580	.095374	.0809999
LEVERAGE	96	.0880	.7944	.400384	.1868708
Valid N (listwise)	96				

Source: Processed Secondary Data, 2023

Based on Table 2, the Overinvestment and Sales Growth factors have an average value that is smaller than the standard deviation value. This means that this variable has a high diversity of information so the distribution of its values is unequal. Meanwhile, the ESG variables, Board Size, Firm Size, ROA, and Leverage have the majority of values higher when compared to the standard deviation values. This shows that the information has a relatively small spread, thus indicating that the information is good information, where the standard deviation value overcomes data deviations in the information which will have an impact on the delivery of one-sided information.

Hypothesis Test

Table 3. Double Linier Analysis Results

Variable	Coefficient	T	Sig
(Constant)	62.111	4.969	.000
OVER_INVESTMENT	-.153	-5.126	.000
SALES GROWTH	9.414	4.280	.000
BOARDSIZE	-.729	-3.384	.002
SIZE	-.398	-.930	.361
ROA	-58.184	-11.831	.000
LEVERAGE	-6.615	-3.619	.001
R Square	.946	F	72.449
Adjusted R Square	.933	Sig.	.000b

Source: Output Double Linier Analysis Result of data from SPSS, 2023

Based on Table 3, above shows the calculation results of the F Test where Sig is obtained. worth 0.000 which shows that the Sig value. This is smaller than 0.05 (Sig. < 0.05), so it is concluded that the model used to test the hypothesis is a good model. As per the consequences of the Coefficient of Determination Test in Table 2, it tends to be seen that the Changed R Square worth shows worth of 0.933 or 93.3%. This means 93.3% of the variables while the remaining 7.7% can be explained by other variables outside the equation.

Overinvestment Positively Affects ESG Performance

Hyphothesis 1 states that overinvestment has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.000 with a coefficient value of -0.153, which is lower than the significance level of 0.05. This shows that, despite the negative correlation, overinvestment has a significant impact on ESG performance. H1 was rejected in this study. This implies that each time an company overinvests, it brings down the degree of ESG execution. On the other hand, in the event that the company doesn't overinvest, it will further develop ESG execution This means that the more companies invest in ESG initiatives, the lower their ESG performance.

This is contrary to legitimacy theory, which predicts that ESG investments will improve ESG performance. These results contradict previous research (Kuzey et al., 2023) and (Bilyay-Erdogan et al., 2024) where overinvestment positively affects ESG performance.

Sales Growth Positively Affects ESG Performance

Hyphothesis 2 states that Sales Growth has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.000 with a coefficient value of 9.414, which is lower than the significance level of 0.05. This shows that sales growth has a positive correlation and has a significant impact on ESG performance. H2 is accepted in this study. This means that companies with better ESG performance tend to experience higher sales growth. These findings are consistent with legitimacy theory and agency theory.

Legitimacy theory states that companies strive to gain and maintain legitimacy from their stakeholders. Good ESG performance can help companies gain legitimacy from stakeholders, such as customers, investors, and society. Stakeholders who see a company as socially and environmentally responsible are more likely to support the company, which can ultimately increase sales. Agency theory states that there is a conflict of interest between managers and shareholders. Managers may take actions in their interests rather than those of shareholders. Good ESG performance can help reduce agency conflicts by showing shareholders that managers are committed to

running the company responsibly. This can increase shareholder confidence in the company, which in turn can increase share value and sales.

These results support previous research (Kuzey et al., 2023) and (Pirgaip, 2023) which states sales growth has a positive effect on Environmental, Social, and Governance (ESG) performance.

Board Size Positively Affects ESG Performance

Hyphothesis 3 states that board size has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.002 with a coefficient value of -0.729, which is lower than the significance level of 0.05. This shows that, despite the negative correlation, board size has a significant impact on ESG performance. H3 was rejected in this study. This implies that at whatever point an company has a huge board size, it brings down the degree of ESG execution. On the other hand, in the event that the company has a little board size, it will expand ESG execution. This is different from predictions based on the two main theories governing corporate governance: legitimacy theory and agency theory.

Legitimacy Theory predicts that companies with greater board direction will be more likely to engage in ESG practices because this can help them gain and maintain legitimacy from stakeholders. It is thought that a larger steering board may be more diverse and represent a range of interests, which could increase the company's credibility in its commitment to ESG. Agency Theory predicts that larger boards of directors will be more effective in overseeing management and ensuring that they act in the best interests of shareholders. A larger steering board may have more resources and expertise to unify a company's ESG performance and hold management accountable for its shortcomings.

This result is in line with previous research that showed board size had a significant negative effect on CSR performance (Uyar et al., 2021) and these results support previous research (Germain et al., 2014) which shows that the size of the board of directors and board independence are correlated with the level of company operations or corporate governance.

Size Positively Affects ESG Performance

Hyphothesis 4 states that size has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.361 with a coefficient of -0.398, which is lower than the significance level of 0.05. This shows that size and ESG performance have no correlation, so size has no impact on ESG performance. H4 was rejected in this study. This means that investors do not look at whether a company is big or small in ESG coverage. The finding that there is no relationship between company size and ESG performance suggests that other factors may be more important in determining a company's ESG performance.

This result contradicts legitimacy theory which states that large companies are more motivated to improve ESG performance to gain legitimacy from external stakeholders. These results contradict previous research (Drempetic et al., 2020) which shows there is a correlation between size and Environmental, Social, and Governance performance. and these results support previous research (Schwoy et al., 2023) which shows no support for strengthening the effect on corporate social responsibility performance.

Firms Performance Positively Affects ESG Performance

Hyphothesis 5 states that firms performance has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.000 with a coefficient value of -58.181, which is lower than the significance level of 0.05. This shows that, despite the negative correlation, firm performance has a significant impact on ESG performance. H5 was rejected in this study. This shows that the higher the company's ESG performance, the lower the firm performance. Conversely, the lower the company's ESG performance, the higher the company's performance.

These results challenge the basic assumptions of legitimacy theory. Legitimacy theory assumes that companies seek to maintain and enhance their legitimacy in the eyes of their stakeholders by demonstrating a commitment to ESG principles and practices. This commitment is expected to increase stakeholder trust and attract resources and support, which ultimately improves the company's financial performance. This can be interpreted as evidence that ESG performance does not always lead to increased firm performance. These results are different from studies (Melinda & Wardhani, n.d.) and (Veeravel et al., 2024) where the company's performance has a positive effect on ESG performance.

Leverage Positively Affects ESG Performance

Hyphothesis 6 states that leverage has a positive impact on ESG Performance. The results of the regression analysis of this research show a probability value of 0.001 with a coefficient value of -6.615, which is lower than the significance level of 0.05. This shows that, despite the negative correlation, leverage has a significant impact on ESG performance. H6 was rejected in this study. This indicates that the level of ESG performance decreases whenever the company has high leverage. On the other hand, assuming the organization has low influence, it will further develop ESG execution. For the time being, influence significantly affects diminishing the degree of ESG execution.

This finding is contrary to the predictions of legitimacy theory and agency theory. Legitimacy theory states that companies with higher leverage will seek to improve their ESG performance to maintain a positive public image and attract investors and other stakeholders and Agency theory states that leverage can improve ESG performance by encouraging management to act more efficiently and responsibly. This study shows that leverage has a significant negative effect on ESG performance, so this study contradicts previous research (Putri & Puspawati, 2023) where leverage has a significant positive effect. The use of high debt will have an impact on the sustainability of the company and can be a heavy burden in carrying out its operations. These results support previous research (Zhou et al., 2021) which shows that improving the quality of corporate governance has a strong and negative influence on financial leverage.

Conclusion

Alongside the issue definition and the point of this examination, specifically to decide the impact of overinvestment on ESG execution. So according to the results of various data tests that have been carried out, the following conclusions are obtained: Excessive investment has a significant negative effect on ESG performance; Sales growth has a significant positive effect on ESG performance; Board size influences ESG performance; Size has a significant negative effect on ESG; Firms Performance has a significant negative effect on ESG performance; Leverage has a significant negative effect on ESG performance.

The hypothetical ramifications of this exploration give extra experimental proof connected with the company hypothesis, underscoring the distinctions in interests among proprietors and executives. This shows that management overinvests to meet predetermined investment goals. In addition, agency theory explains the connection that exists between excessive investment and environmental, social, and governance (ESG) considerations. It emphasizes the necessity for businesses to place a high priority on their social, environmental, and governance responsibilities to establish credibility and demonstrate concern for the welfare of society. Such drives cultivate trust and backing from the local area, at last, reinforcing the drawn-out practicality of the company.

The real implication of this research is that it can be used as a consideration for companies in making decisions to improve corporate social responsibility so that companies that have good ESG performance can be used as a review tool for investors in investing. In addition, ESG disclosure can improve a company's reputation and value, as well as create long-term profits. Furthermore, this research can strengthen regulations or policies that support companies with ESG performance so they can contribute to sustainable development.

The limitation of this research is that company size does not affect ESG disclosure. This means that investors do not look at whether a company is big or small in ESG coverage. Suggestions for further research to consider factors such as expanding the research sample and considering other variables to gain a deeper understanding of determinants include ESG.

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