



The Effect of Return on Asset, Debt to Equity Ratio, and Current Ratio Towards The Value of Companies Implementing ESG on The Indonesia Stock Exchange in 2023: ESG Risk Rating as a Moderating Variable

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Article Info:

Abstract

Keywords:

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This study aims to determine and analyze the effect of Return On Asset, Debt To Equity Ratio, and Current Ratio on Firm value with ESG Risk Rating as a Moderating Variable in Companies Implementing ESG on the Indonesia Stock Exchange in 2023. This type of research is quantitative. The data used is secondary data. The sample data obtained were 79 research data from 79 companies in 2023. Data analysis techniques using descriptive statistical tests, classical assumption tests, multiple linear regression analysis tests, t-statistic tests, determination coefficient tests (R²), and subgroup moderation tests. Hypothesis testing is carried out using the SPSS 25 program.

The results of the study indicate that return on assets has no effect on firm value, debt to equity ratio has a negative effect on firm value, current ratio has a negative effect on firm value, ESG risk rating cannot moderate the effect of return on assets on firm value, ESG risk rating cannot moderate the effect of debt to equity ratio on firm value, ESG risk rating cannot moderate the effect of current ratio on firm value.

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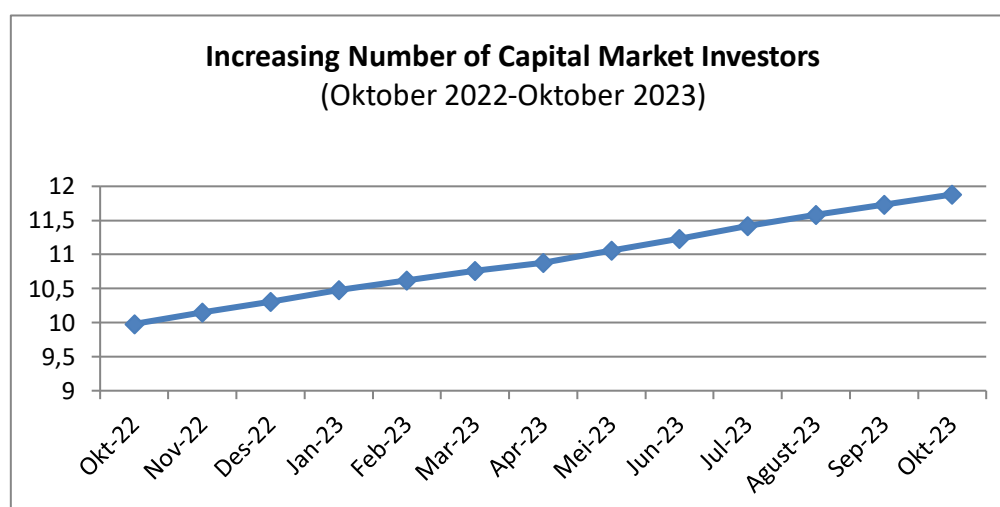
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INTRODUCTION

The development of increasingly advanced technology and information occurs globally throughout the world, including Indonesia. The impact of the ease of technology and information on the capital market is to open up the perspective for potential investors to invest their capital in a company. Investment for the community can be done in any form, one of which is investment in the capital market. With the existence of the capital market, parties who have excess funds can invest these funds in the hope of obtaining profits (returns), while companies (issuers) can use these funds for investment purposes without waiting for the availability of company operational funds (Muklis, 2016).

Chart 1 is a chart regarding the increase in the number of capital market investors in October 2022 – October 2023.

Graph 1. Increasing Number of Capital Market Investors



If we look at the monthly data on the number of investors from October 2022 to October 2023, there has been an increase in the number of investors every month. The number of investors in October 2022 was 9.98 million investors, while in October 2023 there were 11.88 million investors. This shows that people are increasingly concerned and open to the world of investment, which is marked by an increase in the number of investors every month.

The increasing development of technology and information, makes investors more selective in choosing companies to invest in. Prospective investors will also see the value of the company through the company's performance. The performance and financial condition of the company are studied first by investors before deciding to invest so that it can be used as a basis for making investment decisions (Putri, 2016). The important point for investors is to know the value of the company they are going to invest in. The firm value can describe the condition of the company (Nafisah et al., 2020).

Factors that can affect firm value include return on assets, debt to equity ratio, and current ratio. Attention to environmental issues is also increasingly being considered by investors because environmental and social issues are also inherent in companies, one of which is the implementation of ESG. ESG implementation can also be assessed through ESG risk rating. ESG risk rating is used as a moderating variable in this study to determine whether the ESG risk rating score can strengthen or weaken the factors that can affect firm value in companies implementing ESG in 2023.

Based on the above phenomenon, it is interesting to further examine the firm value of companies implementing ESG on the Indonesia Stock Exchange in 2023. Therefore, the researcher developed the following research questions: 1) Does Return On Asset affect Firm value?, 2) Does Debt To Equity Ratio affect Firm value?, 3) Does Current Ratio affect Firm value?, 4) Can ESG Risk Rating Moderate the effect of Return On Asset on Firm value?, 5) Can ESG Risk Rating Moderate the effect of Debt To Equity Ratio on Firm value?, 6) Can ESG Risk Rating Moderate the effect of Current Ratio on Firm value?. The purpose of this study is to determine and analyze whether the independent variable affects the dependent variable, and whether the moderating variable can strengthen or weaken the effect of the independent variable on the dependent variable.

This journal is structured into the following sections: the first section is an introduction,

the second section is a literature review, the third section is related to the methods used in the research, the fourth section is the results and discussion, and the fifth section is the conclusions and suggestions.

LITERATURE REVIEW

Firm value is the company's performance which can be reflected by the share price which is formed by the demand and supply of the capital market which reflects the public's assessment of the company's performance (Wibisono et al., 2019). Maximizing the company's value has an important meaning for the company, because maximizing the company's value also means maximizing the prosperity of shareholders which is the company's main goal (Suhardi, 2021).

Signaling Theory

According to Brigham & Houston (2018) Signaling Theory can be used to describe part of the action shown by the company that shows an indication to shareholders regarding management's views in viewing business opportunities. Signal theory is a theory that explains the actions taken by the signal giver to influence the signal recipient. Signals are interpreted as signals made by the company to outsiders (investors). Signal theory examines how signals relate to the quality reflected in them and what elements of the signal or the surrounding community make the signal convincing and attractive (Ghozali, 2020).

Pecking Order Theory

The pecking order theory shows the tendency of companies to choose financing based on the hierarchy of the most preferred funding sources caused by information asymmetry which shows that management has more information than investors where information asymmetry, transaction costs and emission costs are factors that influence funding so that they tend to encourage pecking order behavior (Farih Putri Septiasih, 2018).

Profitability

According to Kasmir (2019) states that the profitability ratio can be used to assess a company's ability to seek profit. One way to measure profitability is to use Return on Assets (ROA), ROA is used to show how much investment has been returned by the company using all the funds and assets owned (Darminto & Juliaty, 2019)

Leverage

According to Kasmir (2019) The leverage ratio is used to evaluate a company's ability to pay off all its debts by comparing the amount of debt the company has to its total assets. One way to measure leverage is to use the Debt to Equity Ratio (DER). According to Sudan (2015) Debt ratio is able to measure the proportion of funds derived from debt to finance company activities. The greater this ratio can indicate the portion of the company's debt usage in financing investment in assets is greater, this means that the company's financial risk is increasing and vice versa.

Liquidity

According to Kasmir (2019) Current Ratio (CR) is a ratio intended to evaluate a company's ability to pay short-term debt that will mature. According to Darminto & Juliaty

(2019) liquidity is a ratio used as a description of a company's ability to pay off short-term debt when it matures. One way to measure liquidity is to use the Current Ratio (CR).

ESG Risk Rating

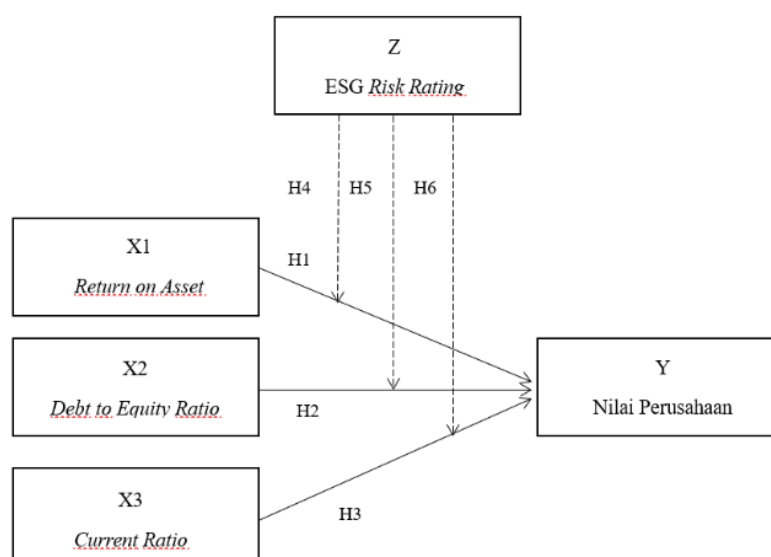
According to Tayan (2022) ESG Rating is part of the assessment of ESG practice implementation in a company. ESG Rating is intended to provide information to market players (investors, analysts, and company managers) about the relationship between corporate interests and non-investor stakeholders.

Firm values

The company's value is the company's market value of outstanding debt and equity securities. Maximizing the company's value has an important meaning for the company, because by maximizing the company's value also means maximizing the prosperity of shareholders which is the company's main goal.(Suhardi, 2021).

The following is a conceptual framework model for thinking in research:

Figure 1. Research Framework



HYPOTHESIS

Firm value can be one of the indicators for investors to see how the value of the company is before investing their capital in the company. Maximizing the value of the company has an important meaning for the company, because by maximizing the value of the company also means maximizing the prosperity of shareholders which is the main goal of the company (Suhardi, 2021).

Previous research that is relevant, research conducted by Cahyono et al. (2019); Jihadi et al. (2021); Nafisah et al. (2020); Sukarya (2019) which contains the results that profitability proxied by return on assets (ROA) has an effect on firm value. However, this study contradicts the research conducted by Purwohandoko (2022) which states that profitability as proxied by return on assets (ROA) does not affect firm value.

H1: Return on Assets has an effect on Firm value

According to Yadnya (2019) Profitability proxied by high ROA allows the company to pay its obligations on time. High trust from creditors, suppliers, and investors will facilitate access to meet the company's funding needs, thus impacting the company's value. Previous research that is appropriate, research conducted by Cahyono et al. (2019); Jihadi et al. (2021); Sukarya (2019) which contains the results that return on assets has an effect on firm value. However, this study contradicts the research conducted by Purwohandoko (2022) which contains the results that return on assets has no effect on firm value.

H2: Debt to Equity Ratio has an effect on Firm value

leverage is one of the factors that investors consider when buying company shares in relation to changes in leverage that have an impact on changes in PBV value (Fitriana & Purwohandoko, 2022). Previous research that is relevant, research conducted by Jihadi et al. (2021) which contains the results that the Debt to Equity Ratio has an effect on firm value. However, this study contradicts the research conducted by Sukarya (2019) which contains the results that the Debt to Equity Ratio has no effect on firm value.

H3: Current Ratio has an effect on Firm value

High liquidity level indicates that the company is in good condition that is able to meet its short-term obligations. Increasing stock prices will increase the value of the company. Higher liquidity makes the value of the company higher and vice versa. Lower liquidity will cause the value of the company to be lower. So that liquidity proxied by the current ratio has an influence on the value of the company (Sukarya, 2019). Previous research that is relevant, research conducted by Nafisah et al. (2020) which contains the results that the Current Ratio has an effect on firm value. However, this study contradicts the research conducted by Afinindy et al. (2021) which contains the results that the Current Ratio has no effect on the company's value.

H4: ESG Risk Rating can Moderate the Effect of Return on Assets on Firm Value

ESG Rating is part of the assessment of ESG practice implementation in a company. ESG Rating is intended to provide information to market players (investors, analysts, and company managers) about the relationship between corporate interests and non-investor stakeholders (Tayan, 2022). Previous research that is relevant, research conducted by Rahmawati (2023) which contains the results that ESG Risk Rating can moderate the influence of Return on Assets on firm value.

H5: ESG Risk Rating can Moderate the Effect of Debt to Equity Ratio on Firm Value

If a company has a high ESG risk rating, it can have an impact on the leverage ratio if the company uses ESG activities through debt. This can reduce value and trust in the eyes of investors. If investor confidence decreases, the stock value will also decrease and increase stock price volatility due to unethical company activities so that the company's value will also decrease (Shakil, 2021). This research contradicts the research conducted by Rahmawati (2023) which states that ESG Risk Rating can moderate the influence of Debt to Equity Ratio on firm value.

H6: ESG Risk Rating can Moderate the Effect of Current Ratio on Firm Value

A high ESG risk rating can influence investors and have a big impact on the company because it is related to investors' sense of trust in the company's performance and can affect the company's value (Sukarya, 2019). This research contradicts the research conducted by Fachrezi et al. (2024) which states that ESG risk rating cannot moderate the influence of Current Ratio on firm value.

METHODS

This study is a study using a quantitative approach. The type of data used in this study is secondary data in the form of annual financial reports of companies that implement ESG on the Indonesia Stock Exchange in 2023. The population in this study is all companies listed on the Indonesia Stock Exchange in 2023. The sampling technique uses purposive sampling, samples that meet the sampling criteria are 79 companies that have annual financial reports and have ESG values on the Indonesia Stock Exchange in 2023. The data analysis technique uses multiple linear regression analysis and subgroup Moderation Test. The analysis software uses SPSS version 25.

RESULTS AND DISCUSSION

Descriptive Statistical Test

Descriptive statistical tests are intended to describe accurate data and describe it using the average value, standard deviation, variance, maximum, minimum, kurtosis and skewness (distribution skewness) (Ghozali, 2018).

Table 1. Descriptive Statistics Return on Assets

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	63	,00	,26	,0695	,05745
Valid N (listwise)	63				

Source: SPSS 25 Output

Table 2. Descriptive Statistics of Debt to Equity Ratio

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DER	63	,05	4.00	1,0181	,81944
Valid N (listwise)	63				

Source: SPSS 25 Output

Table 3. Descriptive Statistics Current Ratio

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio	63	,18	5.46	2.0423	1.33325
Valid N (listwise)	63				

Source: SPSS 25 Output

Classical Assumption Test

The classical assumption test includes the normality test, multicollinearity test, and heteroscedasticity test. The data in this study has met the classical assumption test so that it can be continued to the next test stage.

Multiple Linear Regression Analysis

Multiple linear regression analysis is tested to analyze whether there is a correlation between two or more independent variables (Hardianti & Widarjono, 2017).

Table 4. Multiple Linear Regression Analysis

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,058	,030		1,937	,057
	ROA	-,077	,044	-,151	-1,764	,083
	DER	-,401	,046	-,738	-8,650	,000
	Current Ratio	-,366	,062	-,524	-5,907	,000

a. Dependent Variable: Firm value

Source: SPSS 25 Output

Based on the results of multiple linear regression analysis, the following equation was obtained:

$$\text{Firm value} = 0.058 - 0.077 \text{ ROA} - 0.401 \text{ DER} - 0.366 \text{ CR}$$

Based on the SPSS output, the regression coefficient of the return on asset variable is -0.077 with a significance value of $0.083 > 0.05$, meaning that return on assets does not affect the company's value. The regression coefficient of the debt to equity ratio variable is -0.401 with a significance value of $0.000 < 0.05$, meaning that the debt to equity ratio has a negative effect on the company's value. The regression coefficient of the current ratio variable is -0.366 with a significance value of $0.000 < 0.05$, meaning that the current ratio has a negative effect on the company's value.

Sub Group Moderation Test

The Sub-Group Moderation test method aims to determine whether the moderating variable (Z) influences the relationship between the independent variable (X) and the dependent variable (Y).

- a) ESG Risk Rating Sub Group Moderation Test in Moderating Return on Assets On Firm value

Table 5. SSRT Return on Asset Test Results on Firm Value

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,036	1	,036	2,383	,128b
	Residual	,916	61	,015		
	Total	,952	62			

a. Dependent Variable: Firm value

b. Predictors: (Constant), ROA

Source: SPSS 25 Output

Table 6. SSRT1 Test Results ESG Risk Rating High Risk Category In Moderating ROA on Firm Value

ANOVA ^{a,b}						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,004	1	,004	,281	,600c
	Residual	,412	26	,016		
	Total	,416	27			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = High ESG Risk

c. Predictors: (Constant), ROA

Source: SPSS 25 Output

Table 7. SSRT2 Test Results ESG Risk Rating Normal Risk Category In Moderating ROA on Firm Value

ANOVA ^{a,b}						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,032	1	,032	2,122	,155c
	Residual	,499	33	,015		
	Total	,531	34			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = Normal ESG Risk

c. Predictors: (Constant), ROA

Source: SPSS 25 Output

ESG Risk Rating analysis moderates the effect of ROA on Firm Value.

SSRT : 0.916

SSR1 : 0.412

SSR2 : 0.499

SSRG : (SSR1 + SSR2) = 0.412 + 0.499 = 0.911

N1 (Number of samples with High ESG Risk): 28

N2 (Number of samples with Normal ESG Risk): 35

K (Moderation Variable Category) : 2

F Calculation

$$F \text{ Calculate} = \frac{(SSRT - SSRG)/k}{(SSRG)/(n1 + n2 - 2k)} \quad (1)$$

$$F \text{ Calculate} = \frac{(0,916 - 0,911)/2}{(0,911)/(28 + 35 - 4)}$$

$$F \text{ Calculate} = \frac{0,0025}{0,0154} = 0.1623$$

Based on the analysis results, it is known that the calculated F value is 0.1623, while the F Table df = (alpha 5%; k; n1 + n2-2k) or (0.05: 2: 59) is 3.15. The calculated F value (0.1623) < F table (3.15) then it can be concluded that ESG Risk Rating is not able to moderate the effect of Non-Asset Return on Firm value.

b) Moderation Test of ESG Risk Rating Sub Group in Moderating Debt to Equity Ratio on Firm value.

Table 8. SSRT Debt to Equity Ratio Test Results on Firm value

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,288	1	,288	26,440	,000b
	Residual	,664	61	,011		
	Total	,952	62			

a. Dependent Variable: Firm value

b. Predictors: (Constant), DER

Table 9. SSRT1 Test Results ESG Risk Rating High Risk Category In Moderating DER on Firm value

ANOVAa,b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,141	1	,141	13,286	,001c
	Residual	,275	26	,011		
	Total	,416	27			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = High ESG Risk

c. Predictors: (Constant), DER

Table 10. SSRT2 Test Results ESG Risk Rating Normal Risk Category In Moderating DER on Firm value

ANOVAa,b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,157	1	,157	13,901	,001c
	Residual	,373	33	,011		
	Total	,531	34			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = Normal ESG Risk

c. Predictors: (Constant), DER

ESG Risk Rating analysis moderates the effect of ROA on Firm Value.

SSRT : 0.664

SSR1 : 0.275

SSR2 : 0.373

SSRG : (SSR1 + SSR2) = 0.275 + 0.373 = 0.648

N1 (Number of samples with High ESG Risk): 28

N2 (Number of samples with Normal ESG Risk): 35

K (Moderation Variable Category) : 2

F Calculation

F Calculate :
$$\frac{(SSRT-SSRG)/k}{(SSRG)/(n1+n2-2k)} \quad (2)$$

F Calculate :
$$\frac{(0,664-0,648)/2}{(0,648)/(28+35-4)}$$

F Calculate :
$$= 0.727 \frac{0,008}{0,011}$$

Based on the analysis results, it is known that the calculated F value is 0.727 while the F Table df = (alpha 5%; k; n1 + n2-2k) or (0.05; 2; 59) is 3.15. The calculated F value (0.727) < F table (3.15) then it can be concluded that ESG Risk Rating is not able to moderate the effect of Debt to Equity Ratio on Firm value.

c) ESG Risk Rating Sub Group Moderation Test in Moderating Current Ratio On Firm value

Table 11. SSRT Current Ratio Test Results On Firm value

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,111	1	,111	8,082	,006b
	Residual	,840	61	,014		
	Total	,952	62			

a. Dependent Variable: Firm value

b. Predictors: (Constant), Current Ratio

Table 12. SSRT1 Test ResultsESG Risk Rating High Risk Category In Moderating Current Ratio On Firm value

ANOVAa,b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,093	1	,093	7,433	,011c
	Residual	,324	26	,012		
	Total	,416	27			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = High ESG Risk

c. Predictors: (Constant), Current Ratio

Table 13. SSRT2 Test ResultsESG Risk Rating Normal Risk Category In Moderating Current Ratio On Firm value

ANOVAa,b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,043	1	,043	2,880	,099c
	Residual	,488	33	,015		
	Total	,531	34			

a. Dependent Variable: Firm value

b. Selecting only cases for which ESG Risk Rating = Normal ESG Risk

c. Predictors: (Constant), Current Ratio

ESG Risk Rating analysis moderates the effect of ROA on Firm Value.

SSRT : 0.840

SSR1 : 0.324

SSR2 : 0.488

SSRG : (SSR1 + SSR2) = 0.324 + 0.488 = 0.812

N1 (Number of samples with High ESG Risk): 28

N2 (Number of samples with Normal ESG Risk): 35

K (Moderation Variable Category) : 2

F Calculation Calculation

$$F \text{ Calculate} : \frac{(SSRT - SSRG)/k}{(SSRG)/(n1+n2-2k)} \quad (3)$$

$$F \text{ Calculate} : \frac{(0,840 - 0,812)/2}{(0,812)/(28+35-4)}$$

$$F \text{ Count} : = 1 \frac{0,014}{0,014}$$

Based on the analysis results, it is known that the calculated F value is 1, while the F Tabledf = (alpha 5%;k;n1+n2-2k) or (0.05:2:59) of 3.15. The calculated F value (1) < F table (3.15) then it can be concluded that ESG Risk Rating is not able to moderate the influence of Current Ratio on Firm value.

Coefficient of Determination Test (R²)

The coefficient of determination (R²) is used to calculate the percentage of correlation between the independent variables and the dependent variables (Ghozali, 2018).

Table 14. Results of the Determination Coefficient Test

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,784 ^a	,614	,595	,07887
a. Predictors: (Constant), Current Ratio, DER, ROA				
b. Dependent Variable: Firm value				

Source: Data processed by SPSS 22, 2024

The coefficient of determination value is 0.595 or 59.5%. This shows that the independent variable has an influence on the company's value of 59.5% and the remaining 40.5% is influenced by other factors that cannot be explained.

The results of the partial t-test are shown in the table and can be interpreted as follows:

Table 15. Partial Test Analysis Results (t-Statistic)

Coefficients ^a					
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	t
1	(Constant)	,058	,030		1,937
	ROA	-,077	,044	-,151	-1,764
	DER	-,401	,046	-,738	-8,650
	Current Ratio	-,366	,062	-,524	-5,907

a. Dependent Variable: Firm value

Source: SPSS 25 Output

Based on the partial test results, it can be explained as follows:

- The calculated t value of Return on Asset (X1) is -1.764 with a t table value of 1.665, meaning that the calculated t < t table. The significance level is 0.083, because the significance level of 0.083 > 0.05, it can be concluded that Return on Asset (X1) has no effect on Firm value (Y) in companies implementing ESG on the Indonesia Stock Exchange in 2023 and does not support H1.
- The calculated t value of Debt to Equity Ratio (X2) is -8.650 with a t table value of 1.665, meaning that the calculated t < t table. The significance level is 0.000, because the significance level is 0.000 < 0.05, it can be concluded that Debt to Equity Ratio (X2) has an effect on Firm value (Y) in companies implementing ESG on the Indonesia Stock Exchange in 2023 and supports H2.
- The calculated t value of Current Ratio (X3) is -5.907 with a t table value of 1.665, meaning that the calculated t < t table. The significance level is 0.000. The significance level is 0.000 < 0.05, so it can be concluded that Current Ratio (X3) has an effect on Firm value (Y) in companies implementing ESG on the Indonesia Stock Exchange in 2023 and supports H3.

CONCLUSION

Based on the results of the data analysis that has been carried out, the author can conclude as follows: 1) Return on Asset has no effect on Firm value, 2) Debt to Equity Ratio has a negative effect on Firm value, 3) Current Ratio has a negative effect on Firm value, 4) ESG risk rating is unable to moderate the effect of Return on Asset on firm value, 5) ESG risk rating is unable to moderate the effect of Debt to Equity Ratio on firm value, 6) ESG risk rating is unable to moderate the effect of Current Ratio on firm value.

Based on the conclusion, the author provides suggestions:

- 1) For companies, management should pay attention to the variables that affect the level of firm value because based on the results of this study, the related variables have an influence on the firm value. So that the company can determine the optimal level of firm value,
- 2) For investors, this study is recommended to be one of the considerations for decision making before investing in a company,
- 3) For further researchers who will conduct similar research, it would be better to develop this research by adding independent variables such as growth opportunity, company size and also using the evIEWS program in hypothesis testing.

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