

# INFLUENCE OF FINANCIAL REPORT QUALITY, AUDIT QUALITY, AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ON INVESTMENT EFFICIENCY

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**Abstract:** Research was conducted to identify and analyze the impact of financial report quality, audit quality, and Environmental, Social, and Governance (ESG) on investment efficiency with company size, leverage, and industry type as control variables. The data in this research are quantitative data obtained secondarily from the annual reports of non-financial companies listed on the IDX for the 2020-2022 period and ESG scores published by Bloomberg Terminal. The data were analyzed with multiple linear regression models and processed using SPSS software version 23. The findings of this research are that financial report quality and audit quality have a significant and positive impact on investment efficiency, while ESG has no impact on investment efficiency. These findings are expected to provide additional knowledge and empirical evidence related to factors that have an impact on investment efficiency and provide knowledge for companies and investors in order to make the right decisions regarding efficient investment. This research has limitations, namely using ESG scores from Bloomberg where the data obtained is the final result so that the value of its various aspects, namely environmental, social, and governance, is unknown. This means that it is not known specifically what aspects of the company are good. This research does not classify investment efficiency into overinvestment, underinvestment, and efficient conditions.

*Keywords :* Audit Quality, ESG, Financial Report Quality, Investment Efficiency.

## **Abstrak:**

Penelitian dilakukan untuk mengidentifikasi dan menganalisis dampak kualitas laporan keuangan, kualitas audit, dan *Environmental, Social, and Governance (ESG)* terhadap efisiensi investasi dengan ukuran perusahaan, *leverage*, dan jenis industri sebagai variabel kontrol. Data dalam penelitian ini berupa data kuantitatif yang didapatkan secara sekunder dari laporan tahunan perusahaan non keuangan yang terdaftar di BEI periode 2020-2022 serta skor ESG yang diterbitkan oleh Bloomberg Terminal. Data tersebut dianalisis dengan model regresi linier berganda dan diolah menggunakan software SPSS versi 23. Temuan dari penelitian ini yaitu kualitas laporan keuangan dan kualitas audit memiliki dampak yang signifikan dan positif terhadap efisiensi investasi, sedangkan ESG tidak berdampak terhadap efisiensi investasi. Temuan ini diharapkan dapat memberikan tambahan pengetahuan dan bukti empiris terkait faktor-faktor yang berdampak pada efisiensi investasi serta

memberikan pengetahuan bagi perusahaan dan investor agar dapat mengambil keputusan yang tepat terkait investasi yang efisien. Penelitian ini memiliki keterbatasan yaitu menggunakan skor ESG dari Bloomberg dimana data yang didapat adalah hasil akhir sehingga tidak diketahui nilai dari berbagai aspeknya yaitu lingkungan, sosial, dan tata kelola. Hal ini membuat tidak diketahui secara spesifik aspek apa saja yang baik dalam perusahaan. Penelitian ini tidak mengklasifikasikan efisiensi investasi kedalam *overinvestment*, *underinvestment*, dan kondisi efisien. Data penelitian berupa data kuantitatif yang didapatkan secara sekunder dari laporan tahunan perusahaan non keuangan yang terdaftar di BEI periode 2020-2022 serta skor ESG yang diterbitkan oleh Bloomberg Terminal. Persamaan regresi berganda yang dibentuk dari data penelitian akan diuji dengan software SPSS V23.0 .

**Kata Kunci:** Efisiensi Investasi, ESG, Kualitas Audit, Kualitas Laporan Keuangan

## INTRODUCTION

Covid-19 has hit Indonesia since 2020, this outbreak has caused the Indonesian economy to decline, so currently the government is trying to improve the Indonesian economy again through investment. President Joko Widodo said that investment is important as one of the keys to national economic growth and he ordered regional heads throughout Indonesia to pay more attention to investment (Sari, 2023) . Investment in Indonesia is considered less efficient, as seen from the high ICOR value. Incremental Capital Output Ratio (ICOR) is a parameter to show the level of investment efficiency in a country. A small ICOR figure indicates that the investment made is efficient. In 2019, Indonesia's ICOR was recorded at 6.8. Indonesia's ICOR in 2021 and 2022 is 8 and 6.2 respectively, indicating that this ICOR is high and even exceeds the average ICOR of several ASEAN countries (Sipahutar, 2023) . This high ICOR value can be concluded that the level of investment efficiency in Indonesia is quite low.

This research suspects that there are several factors that can influence investment efficiency, namely financial report quality, audit quality and ESG factors (Ellili, 2022; Firawan and Dewayanto, 2021; Wang, Yu, and Li, 2022) . Investment efficiency itself will be measured by calculating the residual value of the investment model developed by Biddle, Hilary, and Verdi (2009) . The amount of residual value obtained will be used as a proxy for investment efficiency, whether it is classified as underinvestment (bottom quartile) or overinvestment (top quartile) or efficient (middle quartile).

Quality financial reports contain accurate information about the company's financial condition and this report will be a useful source of information for investors. In PSAK 1 (Indonesian Accountants Association, 2021) there are 4 characteristics of presenting quality financial reports, namely relevant, reliable, comparable and easy to understand. Each company is required to present financial reports in accordance with applicable SAK. In the Financial Reporting Conceptual Framework (KKPK) according to the 2018 IASB, there are several characteristics of good quality financial reports, namely that the financial reports are relevant, material, complete, neutral, can be compared because they are consistent, presented on time, and easy to understand

(Kieso, Weygandt, and Warfield, 2020) . The high quality of financial reports shows the company's high performance and will encourage investors to provide funds.

High quality financial reports are thought to be able to increase investment efficiency and minimize information gaps that can result in overinvestment or underinvestment. Quality information from financial reports can be an attraction for external parties to provide funds. This will result in the company having sufficient funds, so that they can be used to optimize investment and minimize underinvestment conditions in the company. Quality financial reports will enable investors to have accurate information regarding the company's condition, making it easier for investors to monitor management activities related to investment (Wijaya and Cahyati, 2021) .

This research measures the quality of financial reports using the discretionary accrual model developed by Kothari, Leone, and Wasley (2005) . The lower the value of discretionary accruals, the better the quality of the financial reports, and vice versa. Aryonanto and Dewayanto (2022) revealed that good quality financial reports can increase investment efficiency because management becomes more accountable by minimizing information asymmetry. This statement by Aryonanto and Dewayanto (2022) supports Ellili (2022) who states that investment efficiency can increase if you have quality financial reports. Shahzad, Rehman, Hanif, Asim, and Baig (2019) also found that high quality financial reports can minimize overinvestment and underinvestment conditions so as to achieve efficient investment. These findings are inconsistent, there are research findings which say that investment efficiency is not influenced by the quality of financial reports (Hariyanto, Suganda, and Lembut, 2020; Marsya and Dewi, 2022; Umiyati and Riyanto, 2019) .

The second factor, namely audit quality, is thought to also increase the company's investment efficiency. An audit is an action to collect evidence of information which is then evaluated to determine the level of conformity of the information with established standards (Arens, Elder, Beasley, and Hogan, 2017:4) . A quality audit is carried out by an auditor who has good competence and independence because the opinion given will be a guarantee of the effectiveness of internal control over financial reports and other information such as the company's sustainability report (Arens et al., 2017: 4) . This opinion must be accountable to external parties so that the information contained in the financial reports can be used for decision making (Firawan and Dewayanto, 2021) . Every company needs to carry out an audit because according to agency theory an independent party is needed who can monitor the behavior of management (agents) and ensure that management does not commit deviant actions (Jensen and Meckling, 1976) . Having quality monitoring and opinions from auditors can balance the information held by the company and investors so that investment efficiency in the company can increase.

Audit quality in this research is seen from whether the company is audited by the Big Four KAP. This KAP has a large size, which has a large number of clients so there is a greater incentive to carry out accurate audits because they have special relationships with many clients so they must maintain their reputation. A good reputation in the eyes of the public makes them carry out audits more carefully (Kresna, 2021) . Presenting an inaccurate audit report will make the KAP suffer a lot

of losses and will lose clients. Sirois (2009, in Putri, 2012) revealed that audit fees are the basis for measuring audit quality. High audit fees indicate the high quality of services provided, giving rise to a perception of high competency and audit experience. In this case, the Big Four set higher audit fees compared to other KAP, so they tend to be able to provide higher quality audit reports.

Recently, the Big Four Public Accounting Firm (KAP) has experienced various cases, but the General Chair of the Indonesian Institute of Public Accountants (IAPI) Tarkosunaryo still believes that the KAP industry in Indonesia is led by the Big Four. (Walfajri, 2019) . Research by Shahzad et al. (2019) , Boubaker, Houcine, Ftiti, and Masri (2018) , and Firawan and Dewayanto (2021) show that audit quality can minimize information gaps and will make investment in companies efficient. Their findings are inconsistent with Assad and Alshurideh (2020) and Siregar and Nuryanah (2019) who found that audit quality does not affect investment efficiency.

Global investors demand that companies implement ESG principles and the Financial Services Authority (OJK) also encourages companies, especially in the Indonesian capital market, to apply sustainable finance on an ESG basis (Faruq, Syukra, and Nuky, 2021) . ESG is a set of standards consisting of environmental, social and governance criteria to measure a company's sustainability and ethical performance. Aspects in ESG can be used as a reference in reporting business impacts and influence decision making regarding investment. The increasing number of investors, regulators and other stakeholders who run business positively (resolving issues related to the environment, social and governance), so that currently ESG has been recognized globally as a consideration in making investment decisions and is increasingly becoming a focus for companies in carrying out their business (Indonesia Stock Exchange, 2023) .

Companies that implement ESG principles show that the company cares about the environment and social affairs and demonstrate the implementation of good governance policies within the company. ESG will be measured by the ESG score published by Bloomberg Terminal. This score is a combination of every aspect, namely environmental, social and governance, based on the quality of ESG disclosure. The score range used is 0 to 100. The more information disclosed, the higher the ESG score (Wang et al., 2022) . ESG is a type of non-financial disclosure and is an added value for companies so that it can be used as an indicator in providing value and evaluation regarding the company's performance in its operational activities which have an impact on the environment, social and governance. In capital markets, ESG is useful in evaluating future financial behavior and performance. Investors will involve ESG indicators to select companies to provide funding because investors will measure the sustainability of these companies (Gibran, 2022) .

Wang et al. (2022) reveal that good ESG performance can reduce agency costs, which illustrates the existence of good governance mechanisms and can reduce information asymmetry through the disclosure of non-financial information. Implementing good ESG in a company can limit opportunistic behavior from management, reduce financial constraints, and thereby increase investment efficiency. Good ESG performance illustrates the existence of good governance which encourages investors to provide funds because it shows that the funds provided can later be processed well and optimally, thereby minimizing underinvestment

conditions. Research by Al-Hiyari, Ismail, Kolsi, and Kehinde (2023) also reveals that ESG performance can minimize information discrepancies between agents and principals and reduce the problem of underinvestment so that it can increase investment efficiency in the company. This view is different from the view of Yu, Luu, and Chen (2020) who stated that the implementation of ESG practices is only a symbol to maintain business legitimacy, and management uses ESG practices as a greenwashing policy to gain personal benefits at the expense of various stakeholders, so this influential in investment decisions.

The inconsistency in the results of previous research became the motivation for conducting the current research. Investment efficiency is also an important thing for every company to achieve in order to optimize its profits. Investment is also one of the keys to improving the Indonesian economy, so this is important for each company management to pay attention to so that they can choose and make investments efficiently so that they can help Indonesia's economic growth.

The research objects are companies in the non-financial sector listed on the Indonesia Stock Exchange (BEI) in 2020-2022 which were selected considering the adequacy of research data related to ESG data. This non-financial sector includes manufacturing companies, where the expansion of the Indonesian manufacturing sector continues to increase and has an important role in increasing the value of investment and exports so that it can accelerate Indonesia's economic growth. The contribution of manufacturing companies to Gross Domestic Product (GDP) increases from year to year, as well as high investment realization and export achievements (Ministry of Industry, 2022) . Therefore, management must be careful in making decisions regarding investment in order to achieve investment efficiency (Wijaya and Cahyati, 2021) . This research will also use control variables, namely company size (large and small), leverage, and industry type. Leverage is used to explain that not all sources of capital come from own capital but also from debt. Industry type is used to classify the type of industry of a company, which in this research is divided into manufacturing and non-manufacturing.

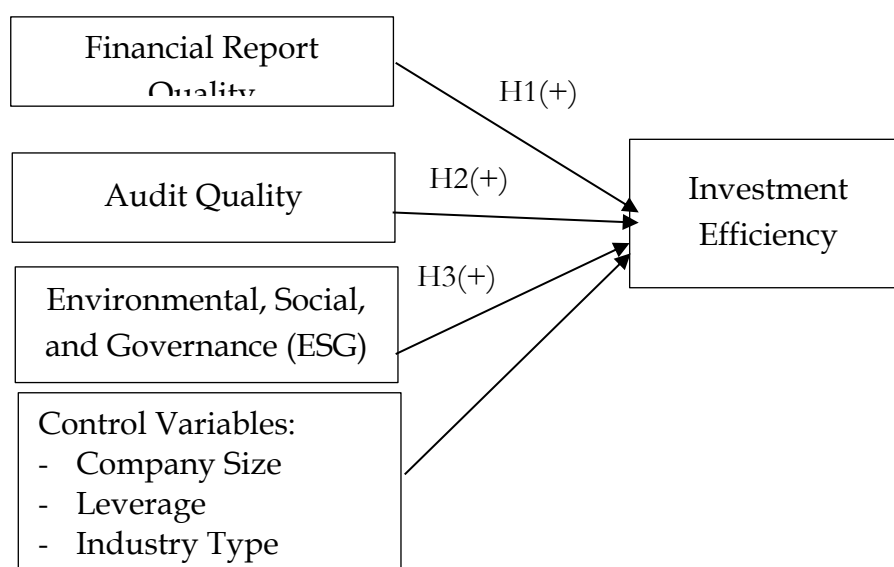
## **THEORETICAL REVIEW**

In agency theory, it is known that an agency relationship is a contractual agreement where the principal authorizes the agent to make decisions and execute work on behalf of the principal (Jensen & Meckling, 1976) . This condition often gives rise to a conflict of interest because the interests of the two parties are different and this will give rise to agency costs, which consist of monitoring costs incurred by the principal to control and supervise the agent's deviant actions, such as by setting appropriate incentives and compensation policy. The agent also incurs bonding costs to ensure that the agent will always act in accordance with the principal's interests and not harm him and will provide compensation to the principal if the agent commits deviant actions.

In fact, it is impossible for an agent to make a decision that is truly appropriate and optimal from the principal's point of view, there must be a difference in decisions between maximizing the agent's profits and maximizing the principal's welfare (Jensen & Meckling, 1976) . This contractual agreement will also create an information

gap between the principal and the agent because the agent knows more about the company because they are the ones who will run the business. This information gap results in a lack of monitoring in terms of investment decision making. Management can take investment projects that exceed the company's expectations with the aim of making a profit without shareholders knowing, resulting in overinvestment. Management has more company information than shareholders, which will create an opportunity not to maximize principal investment, so that management does not take investment projects that could increase company profits, resulting in underinvestment (Wijaya and Cahyati, 2021) . These two problems definitely exist in the company and they must be minimized so that investment in the company can be efficient. In this research, financial report quality, audit quality, and ESG implementation are in line with agency theory.

**Figure 1. Research Model**



Source: Researcher (2023)

Agency theory shows that management knows more internal information than shareholders and other stakeholders, so that information mismatches arise (Jensen and Meckling, 1976) . Therefore, it is necessary to have quality financial reports in order to minimize information asymmetry with external parties because high quality financial reports will accurately show the actual condition of the company. Investors will give their funds to companies that have quality financial reports because they show high company performance, so that the funds provided can be used to optimize investment and minimize underinvestment conditions in the company. Quality financial reports will enable shareholders to have accurate information about the company's condition, making it easier to monitor management activities related to investment (Wijaya and Cahyati, 2021) .

It can be said that quality financial reports will minimize information asymmetry which can lead to conditions of underinvestment or overinvestment . Aryonanto and Dewayanto (2022) in their research stated that increasing investment efficiency in companies can occur due to having good quality financial reports. This

can minimize information gaps so that it will increase investment efficiency. Ellili Findings (2022) consistent with this expectation, where high-quality financial reports increase investment efficiency and reduce information gaps. Shahzad et al. (2019) revealed that to achieve investment efficiency, companies must have good quality financial reports so that they can minimize the problem of under- or over-investment. By considering the explanation above, the hypothesis that will be formulated is:

**H<sub>1</sub>**: The quality of financial reports can increase investment efficiency.

A company will certainly need investors to provide funds for its business so that it can develop. Likewise with investors, they need clients (companies) to be able to invest with the hope of obtaining maximum profits. Agency theory explains that between these two parties there is information asymmetry, where sometimes the interests of the two parties are different, thus allowing deviant actions (Jensen and Meckling, 1976) . Auditors are really needed as mediators, where auditors are tasked with ensuring whether the company has used the funds provided by investors properly and to develop its business. An auditor's opinion is also really needed to minimize information imbalances between management and investors or shareholders because this opinion contains the fairness of the financial reports that have been prepared by the company and can be accounted for to external parties. The quality of this audit will determine the level of confidence of financial report users in the audit opinion. High-quality auditors can increase pressure on management, not only to comply with existing standards but also to be careful and avoid the risk of misstatements (Hammami and Zadeh, 2019) . The findings from Shahzad et al. (2019) , Boubaker et al. (2018) , and Firawan and Dewayanto (2021) also show that investment efficiency can occur when companies have good audit quality because it can reduce information gaps. By considering the explanation above, the hypothesis will be formulated as follows :

**H<sub>2</sub>**: Audit quality can increase investment efficiency.

In accordance with agency theory, information asymmetry, conflicts of interest and agency costs between agents and principals will not be zero, so they need to be minimized because these conditions will affect the company's ability to invest. When investors do not have clear enough data regarding the condition of the company, they will limit the provision of funds to the company, resulting in underinvestment. According to Biddle, Hilary, and Verdi (2009) , investment efficiency can increase if companies disclose more information, namely related to the company's financial and non-financial matters, because this will help to reduce data uncertainty. With good ESG implementation and performance and disclosure to external parties, it illustrates that the company provides more information, not only from a financial perspective but also non-financial and this can help investors make the right decisions and can increase investment efficiency.

The existence of ESG practices in a company provides a positive signal for investors to provide funds and provides confidence that the funds provided will be managed optimally to improve their business. In research conducted by Wang et al. (2022) and Al-Hiyari et al. (2023) stated that good ESG performance can reduce funding problems and minimize information gaps so that it can increase investment

efficiency. Ellili (2022) also revealed that information gaps within companies can be minimized due to ESG disclosures, where these disclosures can increase company transparency and increase company investment efficiency. By considering the explanation above, the hypothesis is formulated as follows :

**H<sub>3</sub>** : ESG can increase investment efficiency.

## RESEARCH METHODS

This quantitative data research uses company annual reports accessed via [www.idx.or.id](http://www.idx.or.id) and each company's website, as well as ESG scores published by Bloomberg Terminal. The population of this research are companies listed on the Indonesia Stock Exchange (BEI). This research determines the sample using purposive sampling. The following are the criteria for selecting samples in this research, where 202 companies were found as samples.

**Table 1. Sample Selection Criteria**

Information	Number of Companies
Total Population	164
Companies that do not meet the criteria:	
1. Non-financial companies listed on the IDX in the 2020-2022 period	(7)
2. Non-financial companies publish annual reports regularly and have been audited by independent parties during 2020-2022	(1)
3. Non-financial companies that publish ESG scores on the Bloomberg Terminal for 2020-2022	(77)
Sample companies	79
Observation period	3 years
Total sample	237
Outlier data	35
Total samples to be processed	202

Source: Processed data (2023)

### Operational Definition of Variables

Investment efficiency is the dependent variable of this research with three independent variables that influence it, namely financial report quality, audit quality, and environmental, social, and governance (ESG). The three control variables include firm size, leverage, and industry type. The following is an explanation of each variable.

#### Investment Efficiency

Efficient investment is a condition where the benefits obtained are in line with what is expected, so that underinvestment or overinvestment conditions do not occur . Wijaya and Cahyati (2021) state that overinvestment is a condition when investment expenditure exceeds the company's expectations or is excessive when making investment decisions, while underinvestment is a condition when the investment spent is less than the company's expectations. Investment measurement uses a measurement model developed by Biddle et al. (2009) .



$$Investment_{i,t} = \beta_0 + \beta_1 SalesGrowth_{i,t} + \epsilon_{i,t}$$

The calculation of investment value and *sales growth* is as follows.

$$Investment_t = \frac{(\text{Purchase of fixed assets} + \text{R\&D} + \text{acquisitions}) - (\text{Sales of PPE})}{\text{Total Assets}}$$

$$SalesGrowth_t = \frac{(\text{Sales}_t - \text{Sales}_{t-1})}{\text{Sales}_{t-1}}$$

Information:

$Investment_{i,t}$  = The sum of purchases of fixed assets, research and development (R&D) expenses, and acquisition expenses is reduced by the proceeds from sales of PPE, then divided by total assets.

$Sales Growth_{i,t}$  = Percentage of change in company i's sales from  $t_2$  to  $t_1$

$\epsilon$  = Error value

The amount of residual value obtained will be used to measure investment efficiency. These values will be grouped into three conditions, where the bottom quartile indicates the company is underinvested. The middle quartile is a company that is in an efficient condition. The top quartile shows the company is in a condition of overinvestment.

### Quality of Financial Reports

Good quality financial reports can increase efficient investment and minimize information gaps that can lead to conditions of overinvestment or underinvestment. Quality financial reports will enable investors to have accurate information regarding the condition of the company, making it easier for investors to monitor management activities related to investment (Wijaya and Cahyati, 2021). The financial report quality variable is measured using the discretionary accrual model developed by Kothari et al. (2005).

$$TA_{i,t} = \beta_0 + \beta_1 (1/ASSETS_{i,t-1}) + \beta_2 \Delta SALES_{i,t} + \beta_3 PPE_{i,t} + \beta_4 ROA_{i,t(or i,t-1)} + \epsilon_{i,t}$$

Information:

$TA_{i,t}$  = Total size of company i's accruals in year t, by calculating changes in non-cash current assets minus changes in current liabilities (excluding the current portion of long-term debt), minus depreciation and amortization, then divided by the total assets of the previous period.

$ASSETS_{i,t-1}$  = Total amount of assets in the previous period.

$\Delta SALES_{i,t}$  = Change in the amount of sales of company i in year t.

$PPE_{i,t}$  = Net value of total fixed assets owned by company i in year t.

$ROA_{i,t(or i,t-1)}$  = Performance measurement derived from the rate of return on assets, calculated by net profit divided by total assets.

$\epsilon$  = Error value

The variables in the model will be divided by  $ASSETS_{i,t-1}$  to avoid heteroscedasticity. The regression model produces a residual value which is then absolute and the absolute value of *discretionary accruals* will be used as a measurement of the quality of financial reports. The lower the value of discretionary accruals, the better the quality of the financial reports, and vice versa.

### **Audit Quality**

An audit is an activity to collect data and evidence which is then evaluated to see whether the financial information presented by the company is in accordance with applicable regulations and actual conditions. This audit is carried out by a third party, where companies need to use audit services to increase transparency and minimize information asymmetry (Hammami and Zadeh, 2019) . A dummy variable is used as a measure of audit quality (code "1" if the financial report was audited by the Big Four and code "0" for the financial report audited by another party). The Big Four are public accounting firms that have a large size, which have a large number of clients so they are encouraged to carry out accurate audits so that their reputation is maintained (Kresna, 2021) . The audit fees set by the Big Four are also higher compared to other KAP, so they tend to provide higher quality audit reports. This high audit fee indicates a high quality of service, giving rise to a perception of competence and high audit experience (Sirois, 2009; in Putri, 2012) .

### **Environmental, Social, and Governance (ESG)**

ESG is used to measure the sustainability and ethical impact of investment results in companies which refers to three main criteria, namely environmental, social and governance. ESG will be an added value for companies where it can be used as an indicator in providing value and evaluation regarding the company's performance in its operational activities which have an impact on the environment, social and governance. According to Wang et al. (2022) , good ESG performance can reduce agency costs, information asymmetry and financial constraints so that overinvestment and underinvestment can be avoided. ESG variables are measured by ESG scores published by Bloomberg Terminal. The ESG rating from Bloomberg uses a value of 0 to 100 which is a combined value of each aspect, namely environmental, social and governance. A large ESG value shows that the company discloses a lot of information regarding these three aspects (Wang et al., 2022) .

### **Control Variables**

The control variables used in this research are company size (SIZE), leverage (LEV), and industry type (TYPE). Company size is used to classify companies into large and small companies, which is measured by calculating the natural logarithm of total assets. Leverage is used to imply that not all sources of capital come from own capital but also from debt, which is measured by dividing total liabilities by total assets. The type of industry in this study is used to classify companies into the manufacturing and non-manufacturing sectors as measured by a dummy variable, coded "1" for manufacturing companies and coded "0" for non-manufacturing companies.

### **Data analysis technique**

The data analysis technique is multiple linear regression using SPSS version 23 software. The regression model in this research is:

$$IE_{i,t} = \beta_0 + \beta_1 FRQ_{i,t} + \beta_2 AQ_{i,t} + \beta_3 ESG_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 TYPE_{i,t} + \varepsilon_{i,t}$$

Information :

$IE_{i,t}$	= Investment efficiency
$FRQ_{i,t}$	= Quality of financial reports
$AQ_{i,t}$	= Audit quality
$ESG_{i,t}$	= ESG score

$SIZE_{i,t}$  = Company size  
 $LEV_{i,t}$  = Leverage  
 $TYPE_{i,t}$  = Industry type  
 $\varepsilon$  = Error value

## RESULTS AND DISCUSSION

### Descriptive statistics

Descriptive statistics show the lowest value, highest value, average and standard deviation of each variable. The data in this research includes financial report quality (FRQ), audit quality (AQ), environmental, social, and governance (ESG), investment efficiency (IE), company size (SIZE), leverage (LEV), and industry type (TYPE). Table 2 and Table 3 show the descriptive statistics and frequencies of the sample data to be processed.

**Table 2. Descriptive Statistics**

Variable	N	Minimum	Maximum	Mean	Std. Deviation
FRQ	202	0.00366	2.32841	0.53357	0.46850
ESG	202	19.00211	73.86581	42.67171	11.03554
IE	202	-1.19806	1.14692	-0.20058	0.38471
SIZE	202	28.31750	33.65519	31.02046	1.04649
LEV	202	0.02304	0.96131	0.49186	0.21526

Source: Processed data (2023)

**Table 3. Frequency of Audit Quality Variables (Dummy)**

	Frequency	Percentage
Non-financial companies listed on the IDX for the 2020-2022 period:		
- Big Four audited	129	63.9%
- Audited by other KAP	73	36.1%
Total	202	100%

Source: Processed data (2023)

The results in table 3 show that almost sixty-four percent of companies were audited by Big Four KAP and the remaining 36% were audited by other KAP. In general, it can be said that the audit quality of the sample companies is good. The results in table 4 show that one third of the sample is from companies in the non-manufacturing industrial sector and the rest are from other sectors, so it can be said that the non-financial sample is still dominated by the manufacturing sector.

**Table 4. Frequency of Industry Type Variables (Dummy)**

	Frequency	Percentage
Non-financial companies listed on the IDX for the 2020-2022 period:		
- Manufacturing industry	69	34.2%
- Non-manufacturing industry	133	65.8%
Total	202	100%

Source: Processed data (2023)

This research has passed the classic assumption test consisting of normality, heteroscedasticity, multicollinearity and autocorrelation tests. This research has also passed the model feasibility test, where a significant value was obtained from the F statistical test of 0.000, thus indicating that the regression model is suitable for use because this value is less than 0.05. In table 5 it is known that the adjusted R<sup>2</sup> is 0.498, this value illustrates that the independent variables consist of financial report quality (FRQ), audit quality (AQ), and environmental, social and governance (ESG) as well as control variables consisting of measures. company (SIZE), leverage (LEV), and industry type (TYPE) can explain the dependent variable, namely investment efficiency (IE) of 49.8% and the remaining 50.2% is explained by other variables not examined in this research.

**Table 5. Model Feasibility Test Results**

	Mark
F Statistical Test	0,000
Determination Coefficient Test ( adjusted R2 )	0.498

Source: Processed data (2023)

The results of the multiple regression test are shown in Table 6 to find out how significant the influence of financial report quality, audit quality and ESG is on investment efficiency with company size, leverage and industry type as control variables.

**Table 6. Results of Multiple Regression Analysis**

Model	Unstandardized Coefficients		t	Sig.	Information
	B	Standard Error			
Constant	-0.852	1,766	-0.482	0.632	
FRQ	-0.480	0.080	-6,009	0,000	Significant, positive
I	0.297	0.118	2,514	0.016	Significant, positive
ESG	0,000	0.005	0.055	0.957	Not significant
SIZE	-0.004	0.058	-0.065	0.948	Not significant
LEV	0.924	0.259	3,567	0.001	Significant, positive
TYPE	-0.293	0.111	-2,635	0.012	Significant, negative

Source: Processed data (2023)

From this test, the following regression equation is produced.

$$IE = -0.852 + -0.480 \text{ FRQ} + 0.297 \text{ I} + 0.000 \text{ ESG} + -0.004 \text{ SIZE} + 0.924 \text{ LEV} + -0.293 \text{ TYPE} + \varepsilon$$

### The Influence of Financial Report Quality on Investment Efficiency

Table 6 shows the results that the quality of financial reports has a significant and positive impact on investment efficiency. These findings indicate that high quality financial reports will increase the company's investment efficiency. In other words, H<sub>1</sub> is accepted. This finding is in line with research by Aryonanto and Dewayanto (2022) , Ellili (2022) , and Shahzad et al. (2019) which states that the high quality of financial

reports can make investment in the company efficient. Based on agency theory, good quality financial reports illustrate transparency regarding company information so that investors know the true condition of the company. This can minimize information asymmetry which influences efficient investment decision making. Wijaya and Cahyati (2021) stated that quality financial reports can make it easier for investors to monitor management activities. This research can prove this, the high quality of financial reports can improve the supervisory function for investors in supervising management activities related to investment decision making. The function of this supervision is important to avoid management's opportunistic actions that benefit themselves and harm investors.

### **The Influence of Audit Quality on Investment Efficiency**

The analysis results in table 6 show that audit quality has a positive impact on investment efficiency. This illustrates that quality audits can make investment in the company more efficient. This finding shows that H<sub>2</sub> is accepted. This research is in line with the findings of Shahzad et al. (2019) and Firawan and Dewayanto (2021) who state that good audit quality can minimize information asymmetry so that investment efficiency in the company can increase. The results of this research can prove agency theory, where independent parties can help to minimize information asymmetry between *principals* and agents. This independent party becomes an intermediary who can ensure investors that management has not taken any deviant actions related to investment.

An auditor is required to be competent and independent so that the audit report and opinion provided is of quality and can be a guarantee of the effectiveness of internal control in financial reports and other information such as company sustainability reports (Arens et al., 2017: 4) . The auditor's opinion given to external parties can be accounted for and can increase investor confidence, so that investors can help management to make efficient investments. This is proven in this research, where companies audited by the Big Four are able to make investors more confident in giving their funds to the company, thereby minimizing underinvestment conditions. This can happen because the good reputation of the Big Four encourages them to carry out audits more carefully and accurately (Kresna, 2021) . The Big Four also set high audit fees and this illustrates that auditors have high competency and audit experience so they tend to be able to provide quality and trustworthy audit reports (Sirois, 2009; in Putri, 2012) .

### **The Influence of Environmental, Social, and Governance on Investment Efficiency**

The analysis results in table 6 show that ESG has no impact on investment efficiency. This illustrates that implementing ESG does not affect investment in companies to become more efficient. This finding shows that H<sub>3</sub> is rejected. These results are also not in line with previous research conducted by Al-Hiyari et al. (2023) and Wang et al. (2022) which states that ESG can increase investment efficiency. Good ESG performance illustrates that the company cares about the environment and social affairs and has good governance mechanisms, this is an added value in the eyes of investors.

Implementing ESG in companies and disclosing it to the public means that investors have a lot of information about the condition of the company and this shows that the company is more transparent so that it can reduce information asymmetry. Based on the research results, it is known that the sample companies have a fairly low average ESG value, namely 42.67171. The low value of ESG in Indonesia means that investors do not consider the implementation of ESG in companies more. Investors are more focused on providing funds to companies that have good performance. The results of these findings are in line with the findings of Firawan and Dewayanto (2021) who revealed that ESG does not have a significant impact on investment efficiency.

### **The Influence of Company Size, Leverage, and Industry Type as Control Variables on Investment Efficiency**

The results of Table 6 show that company size (SIZE) has no impact on investment efficiency. These results indicate that companies with large sizes cannot increase efficient investment. These results are in line with research by Firmansyah et al. (2022) which reveals that company size has no impact on investment efficiency. The company will incur greater operational costs if the company is large. This will reduce company profits and hamper investment efficiency.

The leverage control variable (LEV) has a positive impact on investment efficiency. These results illustrate that the increase in investment efficiency in the company is due to a high level of leverage. These results are in line with research by Firmansyah et al. (2022) which reveals that leverage has a positive impact on investment efficiency. Companies with a high level of leverage illustrate that the company has more resources to make investments. This condition allows companies to avoid underinvestment and the resources they have can be used to optimize efficient investment.

The analysis results in table 6 show that industry type (TYPE) has a negative impact on investment efficiency. The results of this research illustrate that companies with a manufacturing industry type will decrease the company's investment efficiency. The control variable for industry type cannot yet prove that companies with a manufacturing industry type have efficient investment. Manufacturing companies have more capital goods than non-manufacturing companies. Manufacturing companies can use these goods optimally in order to increase profits and realize efficient investment. In this research, the sample companies have not been able to prove this, companies in the manufacturing industry tend to overinvest in capital goods to speed up the production process, but this is not balanced with the company's capabilities, resulting in overinvestment. Companies must have the right strategy regarding investment and supervision from investors is needed to help make the right investment decisions.

### **CONCLUSION**

In this research, it was found that high quality financial reports were able to increase investment efficiency in the company. These results illustrate that good quality financial reports were able to minimize information gaps, agency conflicts, and the low level of opportunistic attitudes of management in the company, resulting in investment efficiency in the company. increase. The audit quality variable also has a positive and significant impact on investment efficiency. Audit services from Big Four

KAP used by companies can increase investor confidence so that companies are not underinvested. Big Four KAP have high performance and service quality and have good competence and independence so that supervision from these auditors can limit deviant actions carried out by management. This creates pressure for management to carry out their duties well and allocate company resources to be managed optimally to increase the efficiency of company investment. However, the ESG variable has no effect on investment efficiency. Investors do not consider the implementation of ESG in companies more because investors are more focused on providing their funds to companies that have good performance.

There are several limitations in this research, namely that this research uses ESG scores from Bloomberg where the data obtained is the final result so the value of various aspects, namely environmental, social and governance, is not known. This means that it is not known specifically what aspects of the company are good. This research also does not classify investment efficiency into overinvestment, underinvestment, and efficient conditions. Based on the limitations in this research, the suggestion given is that further research can assess ESG by carrying out a checklist based on the disclosures made and further research can examine by classifying investment efficiency into three conditions, namely overinvestment, underinvestment and efficient conditions.

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