CHAPTER V

SUGGESTIONS AND CONCLUSIONS

5.1 Conclusion.

This study was conducted to examine and find out the effect of the Environment, Social and Governance (ESG) performance and shari'ah compliant companies towards the Weighted Average Cost of Capital (WACC). This study used secondary data that has been processed and presented in the form of number or percentage taken from the Thomson Reuters database through the Refinitiv Eikon website. This study used sample of companies listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period. By using the purposive sampling method, the sample companies are focused on 30 companies that have been screened according to the criteria set during the five-year research period.

Based on the findings of the tests and previous discussions that were conducted, several conclusions were obtained in this study. In measuring the company's ESG performance, researchers use individual ESG scores or what is known as the ESG pillar score to find out its effect on WACC. In the first pillar, namely the environmental performance measured using the environmental pillar score, it has a negative and significant effect on the Weighted Average Cost of Capital (WACC). This can be seen from the coefficient value of – 0.017275 with a significance value of 0.013. These results indicate that the company's concern for the surrounding natural environment can affect the company's WACC value. The company's concern for the surrounding natural environment can attract investors and customers to have business with them, especially considering there are many negative side effects of other companies that can damage our nature. The results of this study are supported by the theory of legitimacy and signaling theory. In line with legitimacy theory which explains that companies will be more acceptable to the public when they carry out activities in accordance with the norms and boundaries to not harm their surroundings, as well as signaling theory which states that companies must be able to give good signals in order to give a good impression. Therefore, when the company manages to protect the natural environment around them, it means that the company has gained public trust in operating so that it gives a good impression to investors that the company is working within boundaries that do not harm other parties, both the environment and the community so that it can increase their profits without having to increase the capital amount by debt or equity and reduce the company's financial risk.

The second pillar score is the social pillar score that reflects the company's social performance. The influence of the social pillar score on WACC is positive and not significant, this is shown by the significance value of 0.800, which is bigger than 0.05, with a coefficient value of 0.0042844. This explains that companies that have contributed to their social welfare both internally and externally have not been able to influence in reducing their financial risk as seen from the WACC value. Given the importance of the corporate social environment in carrying out its activities, the role of companies in maintaining their community, workforce or thinking about the human rights is not necessarily able to guarantee a reduction in the cost of capital, either debt or equity. It even allows a positive influence where the higher the company's concern for the social environment they will increase the financial risk seen from the increasing value of WACC. Seeing from there will be needed extra efforts in maintaining the social environment that involves humans, there will also be a lot of costs required, so the company also requires more capital.

The last pillar score of ESG which is governance pillar score has negative and significantly affects the WACC. This significance value was obtained in accordance with statistical tests which showed a significance value below 0.05, namely 0.005 with a coefficient value of – 0.0391276. Given the fact that there is negative and significant relationship between governance performance and WACC, means that the company's concern for their corporate governance can have an impact on whether increasing or decreasing its risk by looking at the WACC value. According to the stakeholder theory, a corporation must take into account the demands of its stakeholders, particularly those who have influence over its operational activities, in order to sustain their relationship with stakeholders in a long term (Sanjaya, 2020). Therefore, companies must be able to maintain their corporate governance, including stakeholders, properly and sustainably so that they can reduce the value of WACC which will give investor confidence to invest in their company.

In addition to the three pillars of ESG scores as an independent variable used in this study, the researcher also uses one of the trends in investment that is being favored by the public, namely shari'ah compliance to find out its effect on the company's financial risk assessed from the WACC. In this study, it was found that there was a negative and insignificant relationship between a shari'ah compliant company and its WACC value. The negative value show that a company with shari'ah compliant stock has a lower WACC since they use more rules in their company's financial activity. So, based on the result it means that company with compliance towards sharia principles has a lower WACC value, and the lower the company's compliance towards sharia principles or not using sharia principles known as companies with conventional stock products has a higher WACC value. The significance value is 0.522 for this variable which exceeds the predetermined level so that it is considered not to have a significant effect on WACC. The results of the study cannot be said to be absolute results because in this study there are limitations in taking research samples, so that the use of the sharia'ah compliant stock variable uses a dummy by differentiating the type of company. So, with the assumption of limited data collection, the results of this study are not in line with the proposed hypothesis.

This study also used control variables to provide limits in this study in addition to independent variables. The control variables used are firm size and leverage. The conclusion on this variable is that the first firm size variable which is measured using the log of the company's total assets shows a positive and insignificant relationship. This insignificant relationship indicates that the size of the company may not necessarily affect the financial risk that it will experience, this can occur for several reasons such as the financial arrangements that occur in some companies are better than other companies so that it will not affect the WACC value too much. In the second control variable, leverage as measured using the debt-to-assets ratio formula has a negative and significant relationship to WACC. From the results of this research, it can be said that a low leverage value can increase the WACC value. This is not in line with several previous studies including research by Ellili (2020) which states that the financial markets view the disclosure of ESG along with a low degree of leverage as good information about the financial health of the company, encouraging stockholders and creditors to lower their expected returns.

5.2 Research Implications.

Based on the results of the research above, there are implications that can be carried out by several parties who need research results, namely:

1. Theoretical Implications.

This study contributes to adding empirical evidence regarding the effect of Environment, Social, and Governance (ESG) performance and shari'ah compliant on the Weighted Average Cost of Capital (WACC) in companies listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019.

2. Practical Implications.

a. For academics and future research.

This study contributes to increasing knowledge related to the variables studied, namely environment, social and governance performance and shari'ah compliance on their effect on the Weighted Average Cost of Capital (WACC). This research is also expected to be taken into consideration for other research in the future given the importance of shari'ah compliance and sustainable development in business world.

b. For investors.

This research can provide information to investors and be used as an additional reference in making decisions to invest in companies listed on the Indonesia Stock Exchange (IDX). By utilizing the information contained in this study, it is hoped that investors will pay more attention to the company's non-financial reports, one of which is the report on ESG performance and also company's shari'ah compliant as a consideration in investing with the aim of supporting companies that care about sustainability.

c. For companies.

The findings from this study is expected to help provide information for companies to care more about their sustainability, one of which is by contributing to their ESG performance and also paying attention to sharia compliance which can affect the company's financial risk seen from its Weighted Average Cost of Capital (WACC).

d. For government.

This research is expected to provide information for the government to be able to pay more attention to and evaluate the rules and norms that apply to the company's environment, social and governance performance as an effort to carry out sustainable development in order to protect the surrounding environment and also the welfare of the community. Likewise, by paying more attention to companies with sharia'ah compliance which are increasingly in demand by the public so that they can be more noticed considering that these companies run their business according to Islamic rules and are halal.

5.3 Research Limitations.

This study has limitations that are expected to be improved and refined in future research with the same topic. The limitations that exist in this research are:

1. This research is limited to companies listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period.
2. This study uses a sampling method, namely purposive sampling, causing observations in this study cannot be carried out on the entire population.
3. The use of secondary data allows for human errors such as in data collection and data processing.

5.4 Research Suggestions

The suggestions that can be given in accordance with the conclusions and limitations of this study for future research are :

1. Future research is expected to expand the number of samples by using a sample of companies registered in other countries and by utilizing several

topics related to sustainable development in addition to ESG performance and also shari'ah compliant companies.

2. Future research is expected to be able to conduct research on a longer or shorter period of time to find out differences in research results by comparing them in future research.
3. Further research is expected to add more independent variables and control variables related to the dependent variable.