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The Influence of Environmental, Social, and Governance Performance on Foreign Investment

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Abstract
Research aims: This study aims to investigate the effect of environmental, social, and governance (ESG) performance on foreign investment through corporate reputation.
Design/Methodology/Approach: This study's population was all non-financial companies listed on Indonesia Stock Exchange from 2015 to 2019. Moreover, the hypotheses testing technique used was Two-Stage Least Square (2SLS), with 150 observations distributed in balanced panel data. In addition, additional analysis was conducted to examine how each company paid attention to ESG practices based on its industry classification through descriptive statistical analysis.
Research findings: The regression results revealed that companies with good ESG performance tended to have a high level of foreign investment. However, it could not be explained by the corporate reputation. In an additional test, this study documented that the mining industry had a much better ESG performance than other industrial groups.
Theoretical contribution/Originality: This study pays attention to foreign investment through trading domestic equity shares, whereas previous studies only focused on ESG practices in the FDI process. In addition, this study examined corporate reputation in explaining the relationship.
Practitioner/Policy implication: The research results can be used by standard setters in developing sustainability disclosure standards in Indonesia, which International Sustainability Standards Board is currently initiating.
Research limitation/Implication: The weakness in this study is the small number of samples employed in the test due to the minimal availability of ESG data in the database.
Keywords: Foreign investment; ESG performance; Corporate reputation; Impression management

Introduction

This study examines the relationship between environmental, social, and governance (ESG) performance and foreign investment through corporate reputation in the case of cross-listed firms on the Indonesia Stock Market. Foreign investment is now a focus for many developing countries to help stabilize the economy through capital distribution across countries. Over the past few decades, the wave of stock market liberalization across the globe has dramatically increased capital mobility and foreign investment (Tsang et al., 2019). High capital mobility allows investors to invest in more productive countries.

The extent of this foreign capital mobilization is intensified in developing countries, especially in economies in Asian markets, such as Indonesia (Chairani & Siregar, 2021). Based on Bloomberg data collected as of September 2020, Indonesia had the second fastest economic growth in the G-20 from 2012 to 2020 (Wiguna, 2020). Moreover, Indonesia has potential natural resources coupled with a strategic geographical location and owns a good human development index to become an attractive investment target for various global investors (Deloitte, 2021). Thus, it encourages managers in Indonesia to take diverse ways to attract foreign investors in their long-term funding.

However, in attracting foreign investment, companies in Indonesia are constantly faced with a legitimacy deficit (Liu et al., 2021). According to the Investment Coordinating Board (BKPM), from 2014 to 2019, the average FDI inflow to Indonesia was only 1.9% of the Gross Domestic Product (GDP) (BKPM, 2020), far below other ASEAN countries, such as Cambodia (11.8% of GDP), Vietnam (5.9% of GDP), Malaysia (3.5% of GDP), and Thailand (2.6% of GDP) (Meilani, 2019). In fact, in the first quarter of 2019, Indonesia's FDI was recorded at USD6.08 billion, experiencing a slowdown (-0.9%) compared to the first quarter of 2018. It could happen because of the many negative governances and environmental and social issues that reduce investor confidence in investing in the Indonesian capital market. In addition, Indonesia is a developing country with various economic, social, and environmental problems, such as high corruption cases, gender inequality, recruitment of minors, and various environmental issues, for instance, plastic waste, smog, river pollution, and forest fires (Tjahjadi et al., 2021). Furthermore, the high level of information asymmetry in developing countries tends to reduce the confidence of foreign investors in considering investment opportunities in developing countries, such as Indonesia (Subramaniam et al., 2016). Therefore, sustainable practices and good governance, such as environmental, social, and governance (ESG) practices, are needed to gain global investors' trust and compete in the worldwide market (Bell et al., 2012).

Liu et al. (2021) have shown that in attracting foreign investment, managers should pay attention to non-financial performance, such as environmental, social, and governance (ESG) responsibility practices, because they can help companies gain a good reputation and be profitable for global stakeholders. In addition, Chipalkatti et al. (2021) argued that ESG practices contributed significantly to the internationalization process, such as FDI (Foreign Direct Investment), by establishing a good reputation. Environmental, social, and governance (ESG) factors are also among the things that global investors consider (Liu et al., 2021; Evans & Peiris, 2010). Besides, ESG implementation demonstrates business management activities that care about environmental sustainability, social welfare in the company environment, and good governance practices (Liu et al., 2021). Further, ESG implementation can answer the challenges of the times, which are increasingly responding to increasing environmental awareness and stakeholder interests. Therefore, implementing ESG in a company will be an attractive factor in global investment appraisal.

Nevertheless, previous studies only used FDI as a proxy for foreign investment. Meanwhile, responsible and sustainable practices, such as good ESG practices, are also greatly concerned by various global investors, including trading domestic equity shares. In addition, prior research has not empirically assessed the role of impression management in ESG practices by testing the corporate reputation as a mediator in the relationship between ESG performance and foreign investment. Furthermore, several studies that have empirically examined ESG practices' relationship with corporate reputation provided inconsistent results. On the one hand, several previous studies have shown that responsible practices positively affect corporate reputation (Galbreath, 2010; Hsu, 2012; Ionescu et al., 2019; Lai et al., 2010; Pham & Tran, 2020; Saeidi et al., 2015). On the other hand, Andayani (2021) and Axjonow et al. (2016) have proven that sustainable practices do not affect corporate reputation. Based on the existing research gaps, this study is motivated to examine whether ESG performance in Indonesia can increase foreign investment (proxied by foreign-owned shares) and whether the relationship is explained by the corporate reputation, which is claimed to be the benefit of impression management strategy of ESG practices.

By adding empirical evidence of the associations between ESG performance and foreign investment, this research contributes in several ways. First, this study expands the capital market literature regarding foreign investment by implementing environmentally, socially, and governance-responsible practices. Mainly, previous studies have employed FDI as a proxy for foreign investment (Liu et al., 2021) and used company external factors, such as state policies (Blakey, 2020; Zhang, 2020) and regional tax incentive opportunities (Hadjilogiou et al., 2020) as determinants of foreign investment research topics. Second, this study adds to the literature in developing countries on increasing foreign investment. In this case, foreign investment in developing countries is rising, which shows the importance of foreign investment for developing countries to help economic stability. Third, the results of this study provide input to standard setters and managers to maximize ESG performance to establish good corporate governance and reputation to attract foreign investors.

Literature Review and Hypotheses Development

Regulatory Setting for Sustainable Development in Indonesia

In Indonesia, the progression of the sustainable development concept is policed in several regulations, such as Law No. 40 of 2007 Article 74 concerning Limited Liability Companies. It explains that companies that conduct their business activities in the field of and/or related to natural resources are required to perform social and environmental responsibilities. In addition, Government Regulation Number 47 of 2012 Article 3 also states that social and environmental responsibility is an obligation for companies that run their business in the field of natural resources. However, regulations regarding implementing sustainable practices are only mandatory recommendations and are not accompanied by structured guidelines on how these sustainable practices should be reported and disclosed. The structured guidelines on sustainable reporting in Indonesia have then been prepared and stipulated by the Financial Services Authority in OJK Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. Still, this regulation is only explicitly applied to financial service institutions, and no regulations and guidelines are used for publicly listed companies in the non-financial sector.

Meanwhile, in the world, the progression of sustainable economic development today is still rolling and growing gradually. On November 3, 2021, the IFRS Foundation Trustees announced the establishment of the International Sustainability Standards Board (ISSB), tasked with developing high-quality sustainability disclosure standards to meet the information needs of stakeholders. Then, on March 31, 2022, the ISSB issued Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, which is currently receiving public input on the published exposure drafts. The exposure draft includes proposals for definitions and requirements consistent with the IASB Conceptual Framework for Financial Reporting, IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The proposal in the exposure draft will require the entity to disclose material information about all significant sustainability-related risks and opportunities it faces, along with requirements and guidelines to support the disclosure of such sustainability information (ISSB, 2022). Moreover, the Indonesian Accounting Association (IAI) is also currently responding to the published exposure draft through the Task Force on Comprehensive Corporate Reporting (TF CCR) (IAI, 2022).

Signaling Theory

Signal theory is based on the premise that one party (e.g., seller) has more comprehensive information than an external party (e.g., buyer). The signal theory also explains that investors are external parties to the company with limited information on the company's operations and must depend on what management wants to share (Naffa & Fain, 2020). To minimize the risk of this information asymmetry, investors will identify observable characteristics (signals) that are likely to affect the company's financial performance in evaluating their investment (Bergh & Gibbons, 2011). According to signal theory, good information or signals will drive cash inflows as a form of investor confidence that the entity is good (Bergh et al., 2014).

In addition, the signal theory provides a solution that companies can try to reduce the risk of information asymmetry by giving good signals to stakeholders. According to Reber et al. (2021), implementing ESG practices is one of the company's efforts to reduce the risk of information asymmetry to stakeholders by providing compliance signals so that they are more acceptable to the public and obtain operating permits. Moreover, the company's ESG practices help stakeholders, as parties with few connections and access to information, to capture the company's good intentions in responsible and sustainable management practices (M. Zhang, 2020). Thus, the compliance signal from ESG practices is expected to be a positive signal for investors' investment assessments and bring cash inflows to the company's capital.

Environmental, Social, and Governance (ESG) and Foreign Investment

The rise of social, environmental, and governance issues in the business world encourages investors from various countries to emphasize and pay attention to environmentally, socially, and governance-responsible business practices now as a feature of sustainable investment (Yu et al., 2018). According to signal theory, ESG practices can signal compliance with the norms of sustainable business behavior (Belkaoui, 1976). ESG practices also pay attention to various environmental, social, and governance issues to address areas characterizing sustainable, responsible, and ethical investment (Chairani & Siregar, 2021). When an entity shows behavior that is relevant to the values in society, the entity will get a good assessment from the public (Pham & Tran, 2020). Hence, companies with good ESG practices can positively influence global investment valuations since they are relevant to various countries' demands and investment environments. In addition, high ESG performance illustrates managers' ability in the company's operational activities because managers must have good management skills to implement good ESG practices (Baron, 2008). ESG practices also reduce information asymmetry through more transparent reporting (Reber et al., 2021) to help investors control the company's performance. Thus, companies with better ESG performance tend to be more transparent, lower risk, and reflect better and more sustainable management practices, ultimately becoming a positive signal in global investor assessments. Therefore, investors tend to be more attracted to companies with better ESG performance.

Chairani and Siregar (2021) documented that ESG practices in a company can be a strong attraction for foreign investment. Further, research conducted before (Liu et al., 2021) at the level of foreign direct investment in 44 countries revealed that high ESG scores reflect important intangible assets and help the internationalization of companies by promising good governance and management systems and sustainable business prospects. Moreover, Yu and Zheng (2020) examined the impact of mandatory ESG adoption in China by comparing the period before and after compulsory disclosure and documenting that an increase in ESG practices after mandatory disclosure leads to an increase in the percentage of foreign investment in firms in China. Since ESG performance is identified as an attractive positive signal in investment appraisal, global investors tend to invest in companies with good ESG performance. In other words, the better the ESG performance of a company, the greater the foreign investment in the company. Thus, this study derived the following hypothesis:

H_1**:** *Companies with better ESG performance tend to have higher foreign investment than companies with worse ESG performance.*

Environmental, Social, and Governance (ESG) and Corporate Reputation

According to signal theory, a good ESG performance can give a good signal in positively influencing the public's assessment of a company (DasGupta, 2021). It is because ESG-responsible practices meet the norms and values in society. Wang and Sarkis (2017) also argued that environmentally and socially responsible practices are an opportunistic company strategy for building a good image and being able to cover up negative issues inherent in the company. When a company exhibits socially and environmentally responsible behavior, the company appears legitimate in the eyes of the public so that people's judgments are positively influenced (Pham & Tran, 2020a). In addition, companies with good ESG performance tend to publish more of their activities to become a strong signal in public assessments (Reber et al., 2021). Consequently, it makes ESG practice a good impression management strategy for companies in Indonesia to compete globally despite the negative issues developing in Indonesia.

A recent study by Reber et al. (2021) on IPOs companies in NYSE, NASDAQ, or AMEX supports the statement that ESG performance could build a corporate reputation. Also, Galbreath (2010) showed that high ESG performance indicates good corporate behavior and is consistent with stakeholder values, thereby increasing the corporate reputation. Besides, environmentally responsible practices are a value driver in enhancing corporate reputation (Siegel, 2009) as they positively influence stakeholder opinions (Dangelico, 2015) and offer a favorable forward-looking perspective on business sustainability (Clarkson et al., 2004). Based on the theory and the previous research results, the hypothesis in this study is:

***H_2*: Companies with better ESG performance tend to have a better corporate reputation than companies with worse ESG performance.*

Corporate Reputation and Foreign Investment

The corporate reputation is a comprehensive and robust signal for investors since it contains many dimensions, whether financial, social, or environmental, to be of concern and assessment for stakeholders (Duque-Grisales & Aguilera-Caracuel, 2021; Barnett & Salomon, 2006). Companies with good reputations tend to outperform those dimensions to be superior to their competitors. They also tend to have better financial performance and implement ethical and sustainable business practices. Therefore, investors are more attracted to companies with good reputations because a good reputation signals positively to various stakeholders about the company's growth prospects and ethical business practices implemented (Reber et al., 2021) so that the public and investors positively assess it. In addition, a favorable reputation will create good relationships with diverse stakeholders and enable the company to gain their support, which is also a valuable resource that strengthens the company's competitive position (Jones, 1995). Hence, a company with a good reputation sends a positive signal to investors as it conducts ethical business processes and becomes a profitable business opportunity.

Furthermore, Lu et al. (2018) investigated the level of foreign investment in China and documented that the level of social trust in a region determined the level of foreign investment entering a company. Liu et al. (2021) also uncovered that corporate reputation plays a vital role in market internationalization efforts by companies in developing countries that face a legitimacy deficit during the company's internationalization process. Moreover, a positive signal of a corporate reputation can cover the negative issues inherent in companies in developing countries by offering an overview of performance and ethical business practices, so they attract more foreign investment (Wang & Sarkis, 2017). Therefore, this study proposed the following hypothesis:

***H_3**: Companies with better reputations tend to have higher foreign investment than companies with poorer reputations.*

Environmental, Social, and Governance (ESG), Corporate Reputation, and Foreign Investment

According to signal theory, good ESG performance can be potential information that positively influences the public's assessment because it addresses areas that characterize ethical, sustainable (Zhang et al., 2021), and low-risk investment opportunities (Reber et al., 2021). When a company demonstrates ethical behavior and meets norms, the company appears legitimate, so the public's assessment of the company is positively influenced (Pham & Tran, 2020). Duque-Grisales and Aguilera-Caracuel (2021) also argued that long-term ESG initiatives could help companies achieve legitimacy and positively impact foreign investors' valuations. In addition, companies with good ESG performance will tend to inform ESG activities more broadly so that they can be well received and identified by stakeholders, including investors (Reber et al., 2021). Then, it makes ESG performance a strategy for companies to influence public perceptions and improve corporate reputation.

Furthermore, companies with good reputations tend to be more well-received and valued by their stakeholders, including investors (Surroca et al., 2010). Companies with good reputations also outperform various social, environmental, and financial dimensions that concern global investors (Duque-Grisales & Aguilera-Caracuel, 2021). Therefore, investors tend to be more attracted to companies with good reputations because they give a positive signal about sustainability and are considered superior to their competitors (Kaur & Singh, 2018). Thus, it can be concluded that companies with good ESG scores will have a good reputation and ultimately have more opportunities to be accepted by global investors; therefore, they will have more foreign investment.

Kim et al. (2018) and Reber et al. (2021) found that ESG performance could become a company's strategic action in improving corporate reputation. Moreover, the survey conducted by Saeidi et al. (2015) and DasGupta (2021) on Iranian companies documented that ESG could benefit companies by improving their reputation. Then, Rhee and Haunschild (2006) and Lu et al. (2018) confirmed that having a good reputation could help companies gain recognition from foreign investors. In this regard, a favorable image and reputation will create good relationships with diverse stakeholders, strengthening the company's competitive position (Jones, 1995). Hence, companies with good reputations are preferred by investors as they are more profitable and sustainable. Therefore, through the ESG demonstration, the company can gain a positive perception from the public, which is attractive to foreign investors. For this reason, this study derived the following hypothesis:

H₄: *ESG performance affects foreign investment through the corporate reputation.*

Figure 1 depicts the conceptual framework of this research based on the hypotheses made.

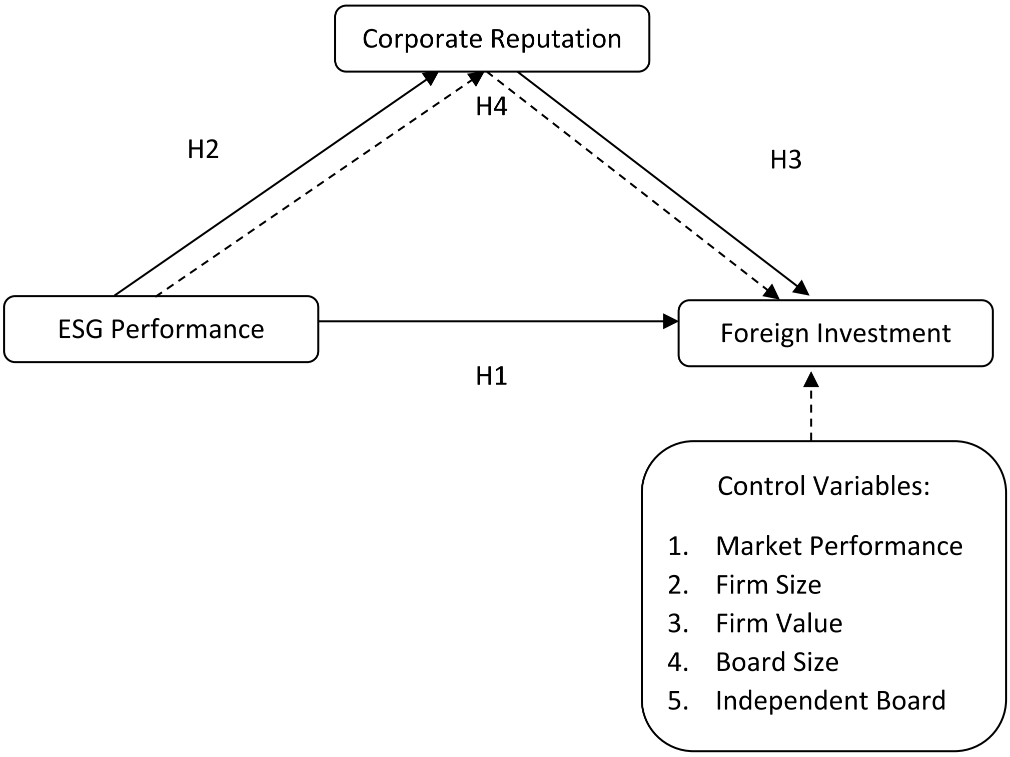

Figure 1 Conceptual Framework

Research Method

Population, Samples, and Data

The population in this study was all non-financial companies listed on the Indonesia Stock Exchange during the 2015-2019 period. Data resources were obtained from the Thomson Reuters database. Then, sampling in this study used the purposive sampling technique. The sampling criteria included (1) non-financial companies listed on the Indonesia Stock Exchange (IDX) in the study period (2015-2019), (2) the companies with ESG scores available in the Thomson Reuters database for 2014-2018, and (3) the companies with complete data needed for analysis, in which data were required to measure foreign investment and reputation in the Thomson Reuters database and financial statements for 2014-2019. Based on the criteria above, the samples obtained were from 30 companies.

Meanwhile, the total observations in this study amounted to 150, distributed as balanced panel data. 2015 was used as the initial year of observation due to the lag of one year of ESG data. Therefore, the ESG data used at the beginning of the observation was in 2014. In 2014, there were many companies issued sustainability reports. It would be more optimal in obtaining data and became the year in which the implementation of ESG practices began to be intensified. Then, 2019 was employed as the end of the observation period because 2019 was the latest year that research data could be used. On the other hand, in 2020, the COVID-19 pandemic spread to all 34 provinces in Indonesia. This pandemic has profoundly impacted the company's operational activities and the level of foreign investment in Indonesia.

Research Model and Variables

This research used a quantitative approach. The dependent variable in this study was foreign investment. Foreign investment is defined as foreign equity investment represented by the total company ownership held by foreign investors. Like Chauhan and Kumar (2019), foreign investment was measured by total foreign ownership of outstanding shares. Meanwhile, the independent variables in this study were ESG performance and corporate reputation (mediator). ESG performance measures were obtained from the Thomson Reuters ASSET4 database. The values range from 0 to 100, with 100 as the highest score. Thus, it can be easily identified the quality of the ESG practices of each company. Then, the previous studies employed survey-based measures for corporate reputation (e.g., Aguilera-Caracuel & Guerrero-Villegas, 2017; Kim et al., 2021). Yet, the limitation of this method is the doubts about the credibility, applicability, and reliability of the results when applied in the context of various countries because the survey was conducted on people with very different economic, social, and cultural backgrounds (Brown & Perry, 1994; Fryxell & Wang, 1994). Therefore, following Victor and Sayilir (2020), this study used financial data to measure corporate reputation. The corporate reputation in this study was determined by the market-to-book ratio. The market-to-book value ratio reflects the current stock price of a company compared to the actual amount of equity. In other words, a high market-to-book value ratio represents an excellent public opinion about a company (Victor & Sayilir, 2020).

The summary of the variables' operational definitions is presented in Table 1. Like Pham and Tran (2020), this study utilized the 2SLS method to test the research hypotheses due to the possible endogeneity problems in the research model. According to Gujarati (2006), the Two-Stage Least Square (2SLS) simultaneous regression is suitable to solve the simultaneous equation model so that it is relevant to overcoming endogeneity problems. Meanwhile, the Ordinary Least Square (OLS) and Fixed Effect regression cannot describe the reciprocal relationship in the simultaneous equation system, so it is more likely to produce biased and inconsistent estimates.

Table 1 The Operationalization of Variables

Variable	Measurement	Data Resources
Dependent Variable		
Foreign Investment	Number of foreign-owned shares	Thomson Reuters Database
Independent Variables		
ESG Performance	ESG scores obtained via the Thomson Reuters database	Thomson Reuters Database
Corporate Reputation	Market-to-book value ratio	Thomson Reuters Database
Control Variables		
Market Performance	$Tobin's\ Q = \frac{(MVE + DEBT)}{Total\ Aset}$	Thomson Reuters Database
Firm Size	Ln (Total assets)	Thomson Reuters Database
Firm Age	Ln (Number of years the company was founded)	Thomson Reuters Database
Board Size	Ln (Number of the board of directors)	Thomson Reuters Database
Independent Board	Number of independent directors/number of boards	Thomson Reuters Database

Moreover, this study performed a lag between the period of the dependent and independent variables, assuming that ESG performance and corporate reputation in the previous year are information used by investors to assess investment opportunities this year. In addition, it was done to avoid and overcome the endogeneity problem or reverse causality between these variables so that it is not possible if the influence of foreign investment in period t affects ESG performance in the previous period (t-1). The equations used in this study are as follows:

$$FI_{i,t} = \alpha_0 + \beta_1 ESG_{i,t-1} + \beta_2 Tobins'sQ_{i,t-1} + \beta_3 Size_{i,t-1} + \beta_4 Age_{i,t-1} + \beta_5 Board_{i,t-1} + \beta_6 INDP_{i,t-1} + \varepsilon \text{ ....} (1)$$

$$Reputation_{i,t-1} = \alpha_0 + \beta_1 ESG_{i,t-1} + \beta_2 Tobins'sQ_{i,t-1} + \beta_3 Size_{i,t-1} + \beta_4 Age_{i,t-1} + \beta_5 Board_{i,t-1} + \beta_6 INDP_{i,t-1} + \varepsilon \text{ ....} (2)$$

$$FI = \alpha_0 + \beta_1 ESG_{i,t-1} + \beta_2 Reputation_{i,t-1} + \beta_3 Tobin'sQ_{i,t-1} + \beta_4 SIze_{i,t-1} + \beta_5 Age_{i,t-1} + \beta_6 Board_{i,t-1} + \beta_7 INDP_{i,t-1} + \varepsilon \ \ldots\ldots (3)$$

This study also used factors attracting foreign investment. In the equation model above, $IA_{i,t}$ is the level of foreign investment in company i in period t; $LST_{(t-1)}$ is environmental, social, and governance (LST) performance in company i in period t-1; $Reputation_{i,t-1}$ is the reputation of the company i in period t-1.

For empirical analysis, this study utilized various control variables: Tobin's Q (market performance), firm size, firm age, board size, and percentage of independent boards. Tobin's Q was employed to control the preferences of foreign investors regarding company growth. Tobin's $Q_{i,t-1}$ is defined as the market performance of firm i in period t-

1. This study also controlled this effect using $UP_{i,t-1}$, defined as firm size i period t-1. Previous studies have observed that large companies are followed by analysts more, resulting in lower information asymmetry (Chauhan and Kumar 2019). In addition, the firm's age, $Age_{i,t-1,}$ is defined as the age of firm i in the period t-1. In addition, this study included several governance variables to control corporate-level governance practices. $Board_{i,t-1}$ is the board size of firm i in period t-1, and $INDP_{i,t-1}$ is defined as the percentage of independent boards of firm i in period t-1.

Then, to investigate how environmental, social, and governance (ESG) performance affected foreign investment through corporate reputation, this study follows Baron and Kenny (1986). They argued that the variable functions as a mediator if it fulfills three vital conditions: first, the independent variable (ESG performance) should significantly affect the dependent variable (foreign investment). Second, the independent variables (ESG performance) should substantially influence the mediator variable (corporate reputation). Third, when the independent variables and mediator are included in the model, the mediator variable value should be significant, but the independent variable value (ESG performance) should be reduced.

Result and Discussion

Descriptive Statistic

Table 2 reports the descriptive statistic results to see the distribution of research data in the 2014-2019 period. The foreign investment variable (IA) had a mean value of 5.6675, with a standard deviation of 8.2392. It demonstrates that the mean level of company investment in Indonesia in 2015-2019 was IDR 5,667,470,000, and the value varied greatly from company to company.

Table 2 Descriptive Statistic

	Mean	Maximum	Minimum	Std. Dev.	N
IA	5.6675	34.1468	0.0578	8.2392	150
ESG	44.1212	84.9661	7.7269	20.3959	150
Reputation	2.8871	24.4027	-0.3238	3.5470	150
Tobin’s Q	1.9426	9.7012	0.5141	1.3060	150
Size	29.3350	33.0950	17.0021	4.6589	150
Age	3.4618	4.4427	1.6094	0.5333	150
Board	1.8695	2.6391	1.0986	0.4554	150
INDP	0.4165	1.0000	0.1429	1.5956	150

Meanwhile, the lowest value was 0.0578, which was the value of foreign investment from PT Astra Agro Lestari Tbk (AALI) in 2015, and the highest value was owned by PT Unilever Indonesia Tbk (UNVR), which was 34.1468 or IDR 34,146,788,060.

In addition, the ESG variable had a mean value of 44.1212, with a standard deviation of 20.3959. It indicates that the performance of corporate responsibility on environmental, social, and governance factors in Indonesia in 2014-2018 was 44.1212, and the value differed from company to company. These results signify that, on average, non-financial companies in Indonesia were not enthusiastic about implementing ESG in the company's operational activities. Then, the lowest score was 7.7269, i.e., the ESG performance of PT Gudang Garam Tbk (GGRM) in 2014, and the highest score was owned by PT Vale Indonesia Tbk (INCO) in 2014, which was 84.9661. Meanwhile, the reputation variable had a mean value of 2.8871, with a standard deviation of 3.5470. It denotes that the mean market-to-book value ratio of companies in Indonesia in 2014-2018 was 2.8871, and the value varied from company to company. It demonstrates that, on average, Indonesian companies were valued higher in the market than they should be.

Regression Results

Table 3 presents the first equation test results. In this study, environmental, social, and governance (ESG) performance had a regression coefficient of 0.108467, indicating the positive direction of the regression coefficient. The probability value was 0.0004 at the significance level = 5%, and then the probability value was significant as it was less than 0.05.

Table 3 First Equation Test Results

Variable	Direction Prediction	2SLS	
		(β)	Prob.
Constant	?	-20.79383	0.0015
ESG	+	0.108467	0.0004
Tobin's Q	+	0.839356	0.0614
Size	+	-0.173258	0.1861
Age	+	2.615148	0.0320
Board	+	3.713268	0.0055
INDP	+	0.219286	0.0000
Adj. $\boldsymbol{R}^2$		0.299419	-
Standard Error		6.896252	

Table 4 Second Equation Test Results

Variable	Direction Prediction	2SLS	
		(β)	Prob.
Constant	?	-3.156554	0.1349
ESG	+	0.003105	0.7521
Tobin's Q	+	2.091230	0.0000
Size	+	0.030496	0.4751
Age	+	0.376850	0.3410
Board	+	-0.216355	0.6155
INDP	+	0.001186	0.9224
Adj. $\boldsymbol{R}^2$		0.596978	-
Standard Error		2.251801	-

It can be concluded that the data from hypothesis 1 test results were supported, meaning that the environmental, social, and governance (ESG) performance positively affected the foreign investment level. In other words, the better the environmental, social, and governance (ESG) performance of a company, the higher the level of foreign investment entering the company. It proves that the ESG performance of a company is a factor considered in investment decisions by global investors. In this case, companies with good ESG performance are potential investment fields. They provide sustainable, more profitable, and low-risk investments since they can reduce information asymmetry problems and improve future financial performance.

As presented in Table 4, ESG performance on the corporate reputation had a regression coefficient of 0.003105, suggesting the positive direction of the regression coefficient. The probability value was 0.7521 at a significance level of = 5%, and the probability value was insignificant because it was more than 0.05. Therefore, it can be concluded that the data from the hypothesis 2 test were rejected, indicating that the environmental, social, and governance (ESG) performance did not affect the corporate reputation.

This study's results align with Andayani (2021) and Axjonow et al. (2016), which have proven no significant relationship between ESG implementation and corporate reputation. However, the results of this study are not in line with the research of Pham and Tran (2020), Reber et al. (2021), and Siegel (2009), which verified that the ESG performance of a company had a positive effect on the corporate reputation. It happened because of no reporting standards and guidelines for ESG activities carried out by companies in the Indonesian capital market. It is one of the obstacles for companies in Indonesia to be able to make ESG practices a good impression management strategy. The existence of regulated disclosure guidelines and standards can also be a strategy to improve and optimize the implementation and publication of ESG practices in Indonesian companies. According to signal theory, ESG disclosure and reporting can be a communication tool that can represent companies by reporting their efforts in carrying out good management practices and being socially and environmentally responsible (Reber et al., 2021). Also, the lack of regulation on good and structured disclosure makes the ESG implementation is not well identified by stakeholders (Bhattacharya & Sen, 2004). As a result, several companies that have improved their ESG performance have not been able to build a good reputation and impression through the improvement of their ESG performance.

Table 5 Third Equation Test Results

Variable	Direction Prediction	2SLS	
		(β)	**Prob.**
Constant	?	-18.87816	0.0036
ESG	+	0.106583	0.0004
Reputation	+	0.606884	0.0173
Tobin's Q	+	-0.429779	0.5314
Size	+	-0.191766	0.1378
Age	+	2.386443	0.0472
Board	+	3.844571	0.0035
INDP	+	0.218566	0.0000
Adj. $\boldsymbol{R^2}$		0.322190	-
Standard Error		6.783252	-

Table 5 shows the third equation test results. Concerning the level of foreign investment, the corporate reputation had a regression coefficient of 0.606884, demonstrating the direction of the positive regression coefficient. The probability value was 0.0173 at the significance level = 5%, and the probability value was significant since it was less than 0.05. Hence, it can be concluded that the data from hypothesis 3 test results were supported, meaning that the corporate reputation positively affected the level of foreign investment. The better a corporate reputation, the higher the company's foreign investment level.

Then, to answer hypothesis 4, this study bases the conclusions on Baron, based on several criteria for mediating variables described above. Data from hypothesis 4 test results were not supported since the second condition (independent variable should significantly influence the mediator variable) was not met. It indicates that the corporate reputation variable could not mediate the relationship between ESG performance on foreign investment or that the influence of ESG performance on foreign investment was not through corporate reputation.

This study's results corroborate Andayani (2021) and Axjonow et al. (2016). In this case, the good ESG performance of a company has not been able to build a good reputation for the company. It could happen because of the need for efforts to deliver and communicate related to the implementation of ESG practices by the company so that various stakeholders can easily identify it. This argument agrees with signal theory, explaining that massive disclosure and reporting are needed to convey positive value activities conducted by companies, such as implementing ESG practices. To be aware of companies' involvement in ESG practices, companies must also communicate with the public about their ESG activities (Deephouse et al., 2016). Without communication, no matter how many ESG activities a company develops, the positive impact of ESG activities on public perception will be negligible. Thus, ESG performance will not be able to become a reliable impression management strategy in attracting foreign investment without reporting and disclosure efforts.

On the other hand, reporting on ESG activities in Indonesia is still limited to mandatory disclosure and has not been carried out voluntarily. In addition, the absence of structured, standard guidelines regarding the disclosure of ESG activities in the Indonesian capital market has made companies unable to make more massive disclosures. Consequently, foreign investors could not properly identify the positive signals that result from the ESG implementation. Table 6 shows the summary of research results.

Table 6 Summary of Research Results

	Hypothesis	Result
H1	Companies with better ESG performance tend to have higher foreign investment than companies with worse ESG performance.	Supported
H2	Companies with better ESG performance tend to have a better corporate reputation than companies with worse ESG performance.	Not Supported
H3	Companies with better reputations tend to have higher foreign investment than companies with poorer reputations.	Supported
H4	ESG performance affects foreign investment through corporate reputation.	Not Supported

Additional Analysis

Additional analysis in this study was conducted to see how each industry group paid attention to ESG practices, which are one of the most interesting operational activities in the capital market. Then, the grouping of industries in this research was based on the Indonesia Stock Exchange JASICA (Jakarta Stock Industrial Classification).

Table 7 Industry Group Descriptive Statistics

Industry	Min	Max	Mean	Std. Deviation
Agriculture	24.1513	33.6514	29.7105	4.324476
Mining	21.9018	84.9661	62.9170	18.5198
Basic Industry and Chemicals	8.2209	59.2042	36.7520	18.87384
Miscellaneous Industry	32.2470	37.4935	35.0057	1.888768
Consumer Good Industry	7.7269	74.0361	38.8775	21.65648
Property, Real Estate, dan Building Construction	23.4252	44.6971	31.5925	6.783773
Infrastructure, Utilities, and Transportation	15.9246	73.1576	51.8636	17.54613
Trade, Service, and Investment	11.7616	62.3200	34.1630	15.73921

From Table 7, the descriptive statistical results showed that the mining industry had a much better ESG performance than other industrial groups, with a mean ESG score of 62.9170. Then, it was followed by the infrastructure, utility, and transportation industry groups, with an ESG score of 51.8636. It might be because the mining industry is influential on the three ESG factors (environmental, social, and governance), so it is vulnerable to legitimacy risks. To cover the negative issues inherent in the company, ESG practices are expected to balance the spread of the problems in mining companies so that they can be more accepted by the public and reduce legitimacy problems. Meanwhile, the agricultural industry group owned the lowest mean ESG practice performance, scoring 29.7105. In this regard, the agricultural industry group did not focus much on the performance of its ESG practices because of the low legitimacy risk faced by companies in the agricultural industry group. Thus, it appears that the company's management is aware of the risk level faced by each industry group to activate and adjust the ESG practices applied to compete with its competitors.

Conclusion

This study investigated whether ESG performance positively influenced foreign investment and whether reputation could explain the relationship. The data were collected from the Thomson Reuters database. Then, 2SLS regression was carried out on all non-financial companies in the Indonesia Stock Market for the 2015-2019 period. The regression results revealed that ESG performance in companies in Indonesia has not been able to become an impression management strategy in the public assessment of a company. It might be due to the lack of role in disclosing ESG information by companies in Indonesia. Research in Indonesia also documented that the disclosure and reporting of sustainable practices in Indonesia have not been widely exposed, so the information on ESG practices has not been conveyed optimally. Moreover, Indonesia has various negative environmental, social, and governance issues. It causes the level of foreign investment in Indonesia to be weak compared to other ASEAN countries. Therefore, Indonesian companies must implement impression management through sustainable activities and reporting to reduce these negative issues and gain investor confidence to invest in companies in Indonesia.

However, ESG performance could still positively influence the investment decisions of global investors because it reflects the company's commitment to implementing ethical and sustainable business practices and paying attention to environmental, social, and governance factors relevant to the demands and concerns of global stakeholders today. The findings also uncovered that a good corporate reputation could increase the entry of foreign investment into a company since it indicates a company's competitive advantage in various financial and non-financial dimensions. In the future, companies in Indonesia can intensify good impression management strategies to form a good perspective from the public through optimally disclosing information on company activities with positive values.

Furthermore, this study was limited to a small research sample due to the limited availability of ESG data on the database. This study only used 30 companies listed on the Indonesian Stock Exchange as a sample. Thus, future research can broadly identify sample data to obtain more diverse and comprehensive results in other populations. Still, this research has implications for standard setters to pay attention to policies related to environmental, social, and governance responsibility activities and carry out the process of developing structured guidelines related to the disclosure of environmental, social, and governance responsibility practices. In addition, Indonesia's level of foreign investment is still relatively low compared to other ASEAN countries. Therefore, the existence of structured guidelines on ESG activities is expected to encourage the company's ESG performance, which is proven to increase foreign investment. Besides, this research has implications for investors to carefully assess investment opportunities based on the company's sustainability report. Investors should also properly evaluate a company's ESG activities and performance because ESG performance is a positive signal indicating that the company is committed to implementing ethical and responsible business practices.

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