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The Role of CEO Power in Moderating Liquidity Risk and ESG Disclosure Effects on Firm Value

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Abtract

This study aims to examine the effect of liquidity risk and ESG (Environmental, Social, Governance) disclosure on firm value and to examine the role of CEO power in moderating the effect of liquidity risk and ESG disclosure on firm value. the research population is conventional banking listed on the Indonesia Stock Exchange in 2021-2023 totaling 43 companies. The sampling technique used purposive sampling with a total research sample of 40 companies. The results of this study indicate that liquidity risk has no effect on firm value while ESG disclosure has a positive effect on firm value. the results also show that CEO power is unable to moderate the effect of liquidity risk and ESG disclosure on firm value.

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1. Introduction

Investment in the capital market has become an attraction for investors to invest their capital in the company. Investment is made by buying company shares with the aim of maximizing the expected return (Haryanto et al., 2018; Dash & Raithatha, 2019; Parveen et al., 2020; (oletta & Lima, 2020; Windasari & Purwanto, 2020). Investor prosperity can be seen through the value of the company which can describe the market's perception of the company's ability to generate profits. High company value will attract investors to invest in the company (Das & Kumar, 2023; Waitherero et al., 2021). In 2021 the PBV value of banking companies was 1.32 and continued to decline in 2022 and 2023 to 1.03 and 0.74 (BEI, 2024). That year the health of the bank was quite disturbed so that the value of banking companies continued to decline. Bank Indonesia has issued regulations regarding the level of bank health that must be met by banks, one of which is liquidity risk (PBI, 2011).

Liquidity risk is the lack of liquidity that banks have to meet credit demand and related debt maturities (Ramadanti & Meiranto, 2015; Bowi & Rita, 2020; Chioma et al., 2021; Haryanto et al., 2021). Liquidity risk is often claimed to be a bank killer because it affects the bank's performance and reputation (Anam, 2013; Imbierowicz & Rauch, 2014; Hakimi & Zaghdoudi, 2017; Nelly & Siregar, 2022; and Abdelaziz et al., 2022). The bank's failure to meet obligations not only harms the company but also the company's investors (Windasari & Purwanto, 2020). Liquidity risk is determined using the Loan to deposit ratio (LDR) which can provide an overview of the liquidity and health of the bank by dividing the total loans provided by the bank by the total deposits received by customers (Stella & Puspitasari, 2019; and Olivia et al., 2021; Kasanah et al., 2022). A high LDR level indicates that the bank uses most of the deposit funds to provide loans, thereby increasing the bank's liquidity risk. On the other hand, a high LDR means that the bank will be channelling third-party funds in the form of loans, thus increasing the potential for loan interest income, which will have an impact on increasing profits (Tan & Anggraeni, 2017; Ebenezer et al., 2018; Anwar, 2019; Haryanto et al., 2021). Signal theory emphasizes the disclosure of accounting information that can reflect the company's liquidity risk in order to provide signals to investors in making investment decisions that will have an impact on firm value (Setiawanta & Hakim, 2019). Ebenezer et al. (2018) revealed that liquidity risk negatively affects firm value in banking in Nigeria. This research is also in line with Ebenezer et al. (2019); Peter et al. (2020); Olivia et al. (2021) that liquidity risk has a negative effect on firm value. On the other hand, research by Waitherero et al. (2021) shows that liquidity risk can positively affect the value of banking companies in Kenya. Research by Chia et al. (2020) shows different results that liquidity risk has no effect on firm value. The results of study by Reschiwati et al. (2020) show that liquidity has a positive effect on company value.

The implementation of sustainable finance has become an obligation for financial institutions and public companies that have been included in POJK No. 51 / POJK.03 / 2017 concerning "Implementation of Sustainable Finance for Financial Institutions, and Public Companies". Stakeholder theory emphasizes that companies not only focus on profits but also on the needs of other stakeholders (Aydoğmuş et al., 2022; Velte, 2017). The integration of environmental, social, and governance factors has become a concern for investors in making business investments. ESG is considered to make a major contribution to increasing firm value (Feng & Wu, 2023). Companies with high ESG disclosure will provide awareness for the public of the impact of ESG implementation (Kartika et al., 2023; Abdi et al., 2022). High public awareness will have a positive impact on long-term investment so that it will increase company value. Safriani & Utomo (2020) shows that ESG disclosure has a positive effect on firm value. This research is in line with Yu et al. (2018) which reveals that ESG disclosure can increase firm value in developed and developing coun-tries. In contrast to Jeanice & Kim (2023) which shows that ESG disclosure has a negative effect on firm value. Tirta Wangi & Aziz, (2024) show that ESG disclosure has no effect on firm value.

Previous research shows inconsistencies in research results so it is suspected that there are other factors that can influence the effect of liquidity risk and ESG disclosure on firm value. Previous research only focuses on the effect of liquidity risk and ESG disclosure without considering the role of decision makers in the company who have a strategic role in managing risk and disclosing the performance owned by the company. Therefore, researchers consider the role of CEO power in moderating the effect of liquidity risk and ESG disclosure on firm value. CEO power can be seen through the CEO's education level (Gounopoulos et al., 2021). CEOs with relevant education provide CEOs in their work, the higher and more relevant the education they have, the stronger the CEO in competing in the business world so that they are considered more capable of managing the company and the more power they have (Wiyono & Purnama, 2021; Haneul et al., 2023). CEOs with great power are considered better able to overcome liquidity risk because they are considered to better understand the condition of the company so that they provide positive signals to investors in making investment decisions (Triyani et al., 2020). CEO power is also able to show commitment in implementing ESG principles so as to increase company value (Li et al., 2018).

Research related to liquidity risk, ESG disclosure and the Role of CEO Power on Company Value has been widely conducted. However, the research results show inconsistent findings. This study aims to examine the effect of liquidity risk and ESG disclosure on firm value and examine the role of CEO power in moderating the effect of firm value on conventional banks listed on the Indonesia Stock Exchange.

2. Hyphotesis Development

Liquidity risk is a financial risk due to liquidation uncertainty that has an impact on the bank's failure to meet maturing obligations. High LDR in banking indicates that most customer deposits are used as loans so that liquidity risk will be higher. signal theory emphasizes that the information presented by management must be useful for investors in predicting the returns that investors will receive (Windasari & Purwanto, 2020). The high liquidity risk owned by a company will provide a negative signal to investors in making investment decisions which will have an impact on reducing the company's value. Banks as financial institutions have an obligation to earn interest through loans disbursed must also maintain their liquidity to cover the withdrawal of customer funds at any time and also provide credit (Ramadanti & Meiranto, 2015; Amalia, 2018). If the bank experiences liquidity difficulties, it will have an impact on the trust of customers who can withdraw their funds at any time, this will give a negative signal to investors in investment decisions because the bank will be considered not managing its risks (Ayuni & Anggraeni, 2022).

Research by Ebenezer et al. (2018) states that liquidity risk has a negative effect on the value of banking companies in Nigeria. Low liquidity risk indicates that the bank is able to fulfill its obligations so that it will signal to investors that the bank is more stable and is considered safer to invest. Investment decisions by investors will significantly increase firm value. In line with Tseng et al. (2019); Bărbută-Misu et al. (2019); Windasari & Purwanto (2020) which states that the higher the liquidity risk, it will affect investment decisions which will result in a decrease in firm value.

H_1: Liquidity risk has a negative effect on risk profile.

ESG disclosure refers to the company's process of disclosing environmental, social and corporate governance performance. Good ESG disclosure can improve the company's reputation in the eyes of the public and stakeholders so that it can have an impact on investment decisions and company value. stakeholder theory emphasizes that companies are not only concerned with the interests of shareholders but also other stakeholders. high ESG disclosure also indicates that the company has a good relationship with stakeholders so that it can have an impact on the long-term benefits of the company and minimize the risks experienced by the company.

This logic is supported by the results of Chang & Lee (2022) which reveals that ESG disclosure can increase firm value because it is able to provide long-term benefits to the company and minimize company risk. Wu et al. (2022); Duan et al. (2023) found that ESG disclosure has a positive effect on firm value.

H_2: ESG disclosure has a positive effect on firm value

CEO power describes the level of influence and control that a CEO has in making strategic decisions in the company (Tanikawa & Jung, 2019). CEOs with high and relevant education levels have greater credibility and trust from stakeholders so that they can strengthen their position and power. CEOs with relevant education have a better understanding of market mechanisms so that they can make good decisions on liquidity risk (Wiyono & Purnama, 2021). CEOs with higher education are also more familiar with changing conditions so that they can manage better liquidity management strategies and have an impact on reducing liquidity risk (Naseem et al., 2020).

Signaling theory emphasizes management perceptions to investors in decision making (Taj, 2016; Fristiani et al., 2020; Hahn et al., 2021). CEOs with higher education will give positive signals to investors because they are considered capable of managing liquidity well, thereby reducing liquidity risk and increasing firm value (Chen, 2014).

H_3: CEO Power is able to weaken the effect of liquidity risk on firm value

CEOs with higher education tend to have a better understanding of the importance of ESG disclosure. They can identify the long-term benefits of ESG practices and communicate ESG values effectively (Khandelwal et al., 2023). CEOs with higher education are better able to communicate the company's ESG commitments to stakeholders in a transparent and credible manner. CEOs with higher educational backgrounds have wider networks and better relationships with institutional investors and other stakeholders so that they can provide positive signals to investors in decision making (Liu & Jiang, 2020).

The positive perception given to investors is in line with signaling theory which states that CEOs with higher education are better able to understand, implement, and communicate effective ESG policies, which in turn can provide positive signals to investors and increase investor confidence to invest in the company so as to increase company value (Chen, 2014).

H_4: CEO Power is able to strengthen the influence of ESG disclosure on firm value

3. Data and Methods

The research is a quantitative study with a population of conventional banking companies listed on the Indonesia Stock Exchange in 2021-2023 totaling 43 companies. sampling technique using purposive sampling with the criteria that companies present financial reports, annual reports, and sustainability reports. The number of samples that passed the criteria amounted to 40 banking companies. The research data is secondary data obtained through the official website of the Indonesia Stock Exchange (IDX) and the official website of each bank.

The research dependent variable is firm value as measured using PBV. PBV is the ratio of price to book value used to assess the valuation of a company (Indupurnahayu et al., 2023). This ratio compares the company's stock market price with its book value per share. The independent variables are liquidity risk and ESG disclosure. Liquidity risk is measured using LDR (Mumtazah & Purwanto, 2020). LDR describes the bank's ability to extend credit based on available funds. This ratio compares the total loans provided by the bank with the total deposits received from customers. ESG disclosure is measured using 33 BGK Fondation factors by giving a value of 1 if the bank discloses and a value of 0 if it does not disclose. Total disclosure is divided by the number of BGK Foundation items (BGK Fondation, 2019). The moderating variable of the study is CEO power which is measured using CEO education. CEOs with MBA, MFin/MSF, MSc, MAcc and PhD in Economic, Finance, or Business Administration education will be given a value of 1 and if the CEO does not (Haneul et al., 2023). The operationalization of the research variables is presented in Table 1. The analysis technique was carried out using multiple linear regression. Representation of regression analysis in this study.

$$FV_{it} = \alpha + \beta_1 LR_{it} + \beta_2 ESGD_{it} + \varepsilon_{it}$$

$$FV_{it} = \alpha + \beta_3 LR_{it} + \beta_4 ESGD_{it} + \beta_5 CEOP_{it} + \beta_6 CEOP_{it} * LR_{it} + \beta_7 CEOP_{it} * ESGD_{it} + \varepsilon_{it}$$

Where: FV= Firm value; LR= Liquidity risk; ESGD= Environmental Social Governance disclosure; and CEOP= CEO Power

Table 1. Variable Measurement

Variable	Abbreviation	Measurement
Firm Value	FV	$PBV_t = \frac{Market\ price\ per\ share_t}{Book\ value\ per\ share_t}$
Liquidity Risk	LR	$LDR_t = \frac{\text{Total Loan Disbursed}_t}{\text{Third Part Funds}_t}$
ESG Disclosure	ESGD	$ESGD = \sum \frac{\text{Total Disclosure}}{\text{Total Item}}\ x\ 100$
CEO *Power*	CEOP	Dummy 1 if the CEO holds MBA, MFin/MSF, MSc, MAcc and PhD in Economic, Finance, or Business Administration, and 0 otherwise.

4. Result

Based on table 2, the mean company value is 3.110, which indicates that the company value is in the low category. The maximum value is 64,200 and the minimum value is 0.360. The standard deviation of the company value of 6.947 is greater than the average value, which means that the company value has a lower possibility of value fluctuation. Liquidity risk has a mean value of 93.440 which is included in the low category. The maximum value is 527.910 and the minimum value is 12.350. The standard deviation of liquidity risk of 62.602 is smaller than the average value, which means that liquidity risk has a high probability of fluctuation. The mean value of ESG disclosure and CEO power is 0.550 which is included in the medium category. The maximum value is 0.940 and 1.000, the minimum value is 0.120 and 0.000. The standard deviation of 0.200 and 0.499 is smaller than the average value, which means that the possibility of fluctuations in ESG disclosure and CEO power is higher.

Table 2. Descriptive Statistical Analysis Results

	FV	LR	LST	CEOP
Mean	3.110	93.440	0.550	0.550
Maximum	64.200	527.910	0.940	1.000
Minimum	0.360	12.350	0.120	0.000
Std. Dev.	6.947	62.602	0.200	0.499

Table 3. Regression Model Estimation Results

Test	Statistic	Prob.	Conclusion
Chow	98,662,937	0.000	Fixed Effect Model
Hausman	19,482,635	0.000	Fixed Effect Model

The regression model estimation results show the chow test with a significance value of 0.000 smaller than 0.05 so that the best model is the fixed effect model after that a further test is carried out, namely the hausman test which shows a significance value of 0.000 smaller than 0.05 so that the best model is the fixed effect model. The lagrange multiplier test is not carried out because in the chow test and hausman test the fixed effect model has been selected as the best model.

Based on the results of Panel A hypothesis testing (table 4), ESG disclosure has a positive effect on firm value with a t-statistic value of 4.288 > 1.657 and a significance value of 0.000 < 0.05. While liquidity risk has no effect on firm value with a t-statistic value of 1.265 < 1.657 and a significance value of 0.263 > 0.05. The R-Square value in the study is 0.597 or 59.70%, which means that liquidity risk and ESG disclosure are able to influence firm value by 59,70%. In addition to the R-Square value, the prediction of influence is carried out using an adjusted R-square of 0.377 or 37.70%, which means that the liquidity risk of ESG disclosure is able to influence the company's value by 37.70% and 62.30% is influenced by other variables outside the study. F-statistics in the study amounted to 2.560> 2.68 with a significance level>

0.05 so it can be concluded that the research model is feasible to test.

Table 4. Hypothesis Test Results

Hypothesis	β	t-statistics	Prob.	Conclussion
Panel A: Regresion Model 1: $FV_{it} = \alpha + \beta_1 LR_{it} + \beta_2 ESGD_{it} + \varepsilon_{it}$				
LR→FV	-0.000	-1.265	0.263	Rejected
ESGD→ FV	-4.247	-4.288	0.000	Accepted
R^2	0.597			
Adj R^2	0.377			
$F_{Statistics}$	2.715			
F_{Prob}	0.000			
Panel B: Regresion Model 2: $FV_{it} = \alpha + \beta_3 LR_{it} + \beta_4 ESGD_{it} + \beta_5 CEOP_{it} + \beta_6 CEOP_{it} * LR_{it} + \beta_7 CEOP_{it} * ESGD_{it} + \varepsilon_{it}$				
LR→ FV	-0.000	-1.148	0.142	Rejected
ESGD→ FV	-4.478	-4.117	0.000	Accepted
LR*CEOT→ FV	0.000	0.013	0.989	Rejected
ESGD*CEOT→ FV	21.878	1.490	0.140	Rejected
R^2	0.620			
Adj R^2	0.388			
$F_{Statistics}$	2.678			
F_{Prob}	0.000			

5. Discusssion

Liquidity Risk on Firm Value

The results showed that liquidity risk has no effect on firm value. Generally, banks have various sources of funding so that liquidity risk is no longer a major consideration for investors in making investment decisions (Yuliawati, 2023). Effective banking management in managing assets and liabilities can reduce the impact of liquidity risk on firm value. The results of this study cannot confirm the signal theory which emphasizes that high liquidity risk will give a negative signal to the company. In addition, liquidity risk measured using LDR has an average of 85.10% and has not exceeded the maximum limit set by Bank Indonesia of 90%, it can be stated that the liquidity owned by banks is still at a safe limit so that investors view bank liquidity as not the main investment consideration (PBI, 2011). The results of this study are in line with Ramadanti & Meiranto, (2015), Chioma et al., (2021), and Wiyono & Purnama, (2021) which state that liquidity risk has no effect on firm value.

ESG disclosure on firm value

The results showed that ESG disclosure has a positive effect on firm value. These results indicate that the higher the ESG disclosure, the higher the firm value. ESG disclosure refers to the process of delivering information to the public about the company's performance in environmental, social, and governance aspects for investors and other stakeholders to help assess the long-term sustainability and potential risks associated with the company (Yen-Yen, 2019). Transparent and credible ESG disclosure can help build a positive corporate image, increase investor confidence, and attract forward-looking investors (Fatemi et al., 2018). Transparent and credible ESG disclosures can help build a positive corporate image, increase investor confidence, and attract forward-looking investors (Prayogo et al., 2023). This, in turn, can increase the value of the company in the long run. The results of this study have confirmed the stakeholder theory that emphasizes that companies are not only profit-oriented but also the interests of other stakeholders. ESG disclosure will show the company's commitment in carrying out ESG so as to increase the company's value. The results of this study are in line with Chang & Lee (2022), Wu et al. (2022), and Yu & Xiao (2022) which reveal that ESG disclosure has a positive effect on firm value.

The Role of CEO Power in Moderating Liquidity Risk on Firm Value

The results showed that CEO Power was unable to moderate the effect of liquidity risk on firm value. Liquidity risk involves many factors so that handling risk requires CEOs with practical experience and a deep understanding of changing market conditions. CEOs with higher education do not always have sufficient experience in handling liquidity risk so that they are unable to provide signals to investors in making investment decisions (Chen, 2014). In addition, formal education does not always cover all practical and dynamic aspects of risk management so that non-formal education and practical experience are needed to better manage risk (Veprauskaite & Adams, 2013). Research that only focuses on CEO education can be the cause that CEO power is unable to moderate the influence of liquidity risk on firm value. This is in line with Hiebl (2014) who reveals that CEO Power is not only limited to education but also includes experience. The results of this study cannot confirm the signal theory which emphasizes that CEOs with higher education are able to provide positive signals to investors in managing risks so that they have an impact on firm value.

The Role of CEO Power in Moderating ESG Disclosure on Firm Value

Based on the results of the analysis, it can be seen that CEO Power is unable to moderate the influence of ESG disclosure on company value. CEOs with higher education have broad insight in intellectual terms but tend to have little experience in managing companies so that they are unable to signal to investors in their commitment to carrying out ESG (Ahmad et al., 2022). The study focuses on the formal education of the CEO which does not cover all practical aspects. The results of the study were unable to confirm the signal theory which states that CEOs with higher education are able to signal to investors that the commitment to ESG disclosure will be higher which can have an impact on firm value.

6. Conclusion and Suggestion

Conclusion

The results of this study found that liquidity risk has no effect on firm value. ESG disclosure has a positive effect on firm value. The results of this study indicate that CEO Power is unable to moderate the effect of liquidity risk and ESG disclosure on firm value. CEO education is unable to signal to investors that the CEO has good risk and ESG management so that it does not affect investment decisions and firm value. This study confirms the stakeholder theory which states that companies are not only oriented towards profit but also the interests of all stakeholders. This study also provides an overview to improve transparency and accountability in environmental, social, and governance reporting by preparing clear and easy-to-understand reports**.**

Suggestion

This study has limitations in collecting ESG disclosure data. Some companies have not presented sustainability reporting in accordance with OJK recommendations. The study is also limited to CEO education in measuring CEO Power. Suggestions for future researchers to consider and use other secondary data sources such as ESG databases provided by independent institutions and data provided by third parties such as Bloomberg or MSCI ESG Ratings. Researchers are also advised to use other measurements in measuring CEO Power such as CEO tenure, CEO experience, CEO Finance and other measurements.

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