JBTI : Jurnal Bisnis : Teori dan Implementasi
Website: https://journal.umy.ac.id/index.php/bti/index
Vol 13, No 2 (2022): August 2022, page: 121-128 DOI: https://doi.org/10.18196/jbti.v13i2.14458

Effect of Environment, Social and Governance Disclosure on Firm Value

Faradilla Suretno[1], Fajri Adrianto[2], Mohamad Fany Alfarisi[3]
[1]Correspondence Author: faradillasrtn@gmail.com
[1]Master of Management, Faculty of Economics, Universitas Andalas
[2]Faculty of Economics, Universitas Andalas
[3]Faculty of Economics, Universitas Andalas

INFO

Article History
Received:
2022-04-02
Revised:
2022-05-13
Accepted:
2022-06-23

ABSTRACT

This study aims to determine the environmental, social, and governance of the firm value in this study are all companies listed on the Indonesia Stock Exchange from 2016-2020. The determination of the sample in this study used purposive sampling with the number of samples used by as many as 27 companies during the year. a period of 5 consecutive years of observation so that the total sample obtained is 135. This study uses Stata 14, the analytical technique used is panel data regression analysis. The results showed that the first hypothesis was found that the environment variable's disclosure had a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange. Social variable disclosure has a positive and significant impact on firm value in companies listed on the Indonesia Stock Exchange. Governance variable disclosure has a negative and significant impact on firm value in companies listed on the Indonesia Stock Exchange. While testing with the control variable, namely the company's size, partially has a significant negative effect on firm value, the leverage and profitability variables partially have a significant effect on firm value.

Keywords: Environment, social, governance, firm value

INTRODUCTION

In recent decades it has shown that there is a growing interest in the presentation and inclusion of non-financial information in reporting companies, investors are no longer only interested in the financial aspects of companies but see the company's potential for value creation and sustainable development (Constantinescu et al., 2021). The performance of non-financial companies is starting to receive attention as more and more investment professionals are realizing that profitability alone is not enough for a company's long-term growth. By looking beyond economic, strategic, and operational factors to include environmental and social considerations, sustainability reporting helps increase corporate transparency, strengthen risk management, increase stakeholder engagement, and improve communication with stakeholders (Loh et al., 2017).

Environment, social and governance become one of the factors that can affect the value of a company. Even when the whole world is experiencing the covid-19 pandemic which has caused an extraordinary economic crisis. However, the pandemic has increased awareness of the application of environment, social, and governance (ESG) so that sustainable investing has become more desirable (www.idxchannel.com). As Schroders Global Investors study 2021 examines the behavior and attitudes of more than 23,000 people investing in 33 locations worldwide, the results show that interest in sustainable investment funds has increased since 2020, interest in sustainable investments has increased by five 5 percentage points year-on-year, in addition to increasing interest in social and environmental issues. More than half of respondents feel that social issues (57%) and environmental (55%) are much more important than before the pandemic, while less than 10% think they are less important than before. In terms of the environment, respondents in

Asia are most likely to say this is becoming more important, followed by respondents in America and Europe. This regional pattern also applies to social problems. These results show that sustainability investment has become an option in developing investment portfolios throughout the world, especially in developing countries such as Indonesia.

The independent variables used in this study include environment, social, and governance (ESG). Kim et al. (2021) environment, social, and governance (ESG) is a business strategy in which a company develops and maintains its business in the long term by seeking collaboration, consensus, and symbiotic relationships with various stakeholders in the environment. Environmental disclosure considers how a company conducts its business in an environmentally responsible manner. Social disclosure evaluates how a company manages its business relationships with employees, suppliers, customers, and communities it operates. Meanwhile, the disclosure of corporate governance looks at how companies can build leadership that can apply the principles of good governance, which can take the form of a board and delegation structure, a board of directors, and a compensation system for top management and an audit system, internal control and protection of rights. the rights of major and minority shareholders.

From several studies that have been conducted previously, there are differences in the results of these studies. Ghoul et al. (2017) used data from 53 different countries to determine the positive relationship between ESG performance and firm value. It also Aboud & Diab (2018) finds that companies included in the ESG index have higher firm values and there is a positive relationship between firms that rank higher in the index and firm value as measured by Tobin's Q score.

Despite Atan et al. (2018) showing different findings that partial and simultaneous environmental, social and governance factors do not have a significant relationship between firm profitability and firm value (Tobin's Q). Yoon et al. (2018) also found a negative relationship between disclosure of ESG factors on firm value. This study covers energy (equipment and suits, oil and gas, waste fuel industry), materials (chemicals, building materials, etc.), and utilities (power generation) in South Korea. The results of the study indicate that the influence is influenced by the characteristics of the company. So, for environmentally sensitive industries, the impact of ESG factors on company performance is not as clear as in non-environmental industries, Yoon et al. (2018) also state that corporate governance has a negative impact on company value for companies belonging to sensitive sectors.

Looking at the problems above, it can be seen that the disclosure of environmental, social and governance (ESG) performance information plays an important role in corporate values. ESG serves as a guide that shows the company's image and sustainability in the eyes of the public and investors and evaluates the company's advantages. Investors' response to the company's sustainability performance will have an impact on the value of the company. Firm value is then influenced by environmental, social, and financial disclosure governance (ESG). This is because previous research has mapped the gap phenomenon, which is also a management assessment to focus on ESG aspects.

The authors are interested in further investigating the many variables that affect firm value based on the context of the problem and exploring differences in previous findings. The author chose all companies listed on the Indonesia Stock Exchange as research targets for the 2016-2020 period. This article hopes to provide empirical evidence on the impact of ESG disclosure on firm value in Indonesia.

RESEARCH METHOD

The population in the study is 27 companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The sample selection used the purposive sampling method based on the criteria set previously. Based on the **Table 1.** The conditions that must be met are:

Table 1. Sampling

No.	Information	Number of Companies
1	Companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020	777
2	Companies that are not registered and do not have an ESG Score by Refinitiv Eikon for the period 2016-2020	(738)
3	Companies that are not listed on the Indonesia Stock Exchange (IDX) that do not have complete data and are available for further research.	(12)
	Total sample	27
	Number of Observations during 2016-2020	135

Source: Research processed data (2022)

Operational Definition and Measure of Variables

Dependent Variable

Tobin's Q is an instrument used to measure the value of a company (Sum, 2014). The reason for choosing the Tobin's Q ratio in this study to measure firm value is because the calculation of Tobin's Q ratio is more rational considering that the elements of liabilities are also included as the basis for the calculation. Tobin's Q is calculated by the formula (Melinda & Wardhani, 2020).

$$Tobin's\ Q = \frac{Total\ market\ value + Total\ book\ value\ of\ liabilities}{Total\ book\ value\ of\ asset}$$

Independent Variable

The independent variable is also called the independent variable which causes or is affected by the dependent variable which is denoted by X, where X_1 is the Environment Disclosure, X_2 is the Social Disclosure, and X_3 is the Governance Disclosure. According to Whitelock (2015), ESG is a company's activities related to the surrounding ecology, interaction with the social environment, and the company's internal control system with company goals and meeting stakeholder needs. According to Fuente et al. (2021); Wagner & Wanzenried (2019) ESG performance is measured by ESG metrics from Refinitiv Eikon. This ESG rating measures the company's ESG quality by measuring how well the company's performance complies with the ESG criteria. ESG data is based on ten categories grouped into three pillars: environmental (resource use, emissions, and innovation), social (labor, human rights, community, and product responsibility), and governance (management, shareholder, and CSR strategy).

Control Variable

Size

In this study, company size describes how big the total assets owned by the company are measured by indicators such as sales, capital, and total assets (Nawangsari & Iswajuni, 2019). Firm size is calculated by the formula (Braam et al., 2016).

$$Size = In(Total\ aset)$$

Leverage

Leverage is a ratio that compares debt and assets, leverage informs the company's capital structure originating from loans (Ahmad et al., 2015). Leverage is calculated by the formula (Aboud & Diab, 2018).

$$Leverage = \frac{Total\ debt\ divided}{Total\ assets}$$

Profitability

Return on Assets is an instrument commonly used to measure the profit earned by the company (Masood & Ashraf, 2012). Return on Assets is calculated by the formula (Buallay et al., 2020).

$$ROA = \frac{Net\ income\ divided}{Total\ assets}$$

RESULTS AND DISCUSSION

Results

Based on the contribution of a variable can be seen from the test of determination or R^2. Tests are conducted to see how the model's ability to explain the dependent variable is therefore required to test the determination of R^2. This can be done to determine the good accuracy in the analysis as seen from the magnitude of the coefficient of determination R-Square.

Table 2. Determination & Simultaneous Test Results (Test F)

Number of obs	135
F (6, 128)	10.11
Prob > F	0.0000
R-squared	0.3215
Adj R-squared	0.2897
MSE root	0.7055

From the **Table 2.** results of the common effects model, the R-Squared result is 0.3215. The independent variables include environment, social, and governance disclosures as well as control variables consisting of firm size, leverage and profitability can explain the dependent variable (firm value) of 32.15% while the remaining 67.85% is influenced by other variables outside the model.

A simultaneous significant test (F test) was conducted to see the effect of the independent variable and the dependent variable as a whole. The test was observed from the resulting F value at a level α of 0.05. The significance is when $F \leq 0.05$ then H_0 is rejected, which means the equation model is accepted or feasible. On the other hand, when the significance of $F \geq$ is 0.05, there is no simultaneous effect.

In the results of **Table 2**. the calculated F value is 10.11 with a probability value of 0.0000 $\leq$ 0.05, which means that it includes environmental, social, and governance disclosures as well as control variables consisting of firm size, leverage and profitability have a simultaneous effect on firm value.

A partial significant test (t-test) was used to explain whether or not the influence of environment, social, and governance disclosure as well as control variables consisting of firm size, leverage, and profitability on the dependent variable, namely firm value.

Table 3. Panel Regression Results with Common Effect Model

Variable	coef.	P>|t|	Information
Constant	8.086939	0.002	
ENV	.0128239	0.050	Significant
SOC	.0084031	0.002	Significant
GOV	-.0113259	0.000	Significant
SIZE	-.2352007	0.021	Significant
LEV	.8516109	0.000	Significant
ROA	3.344098	0.000	Significant

Viewed from **Table 3.** above, it can be seen that the environmental disclosure variable has a significant level of 0.050 $\leq$ 0.05. So, it can be concluded that environmental disclosure has a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange for the 2016-2020 period and it can be said that H0 is rejected and H_1 is accepted.

The social disclosure variable has a significant level of 0.002 $\leq$ 0.05. So it can be concluded that social disclosure has a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange for the 2016-2020 period and it can be said that H_0 is rejected and H_2 is accepted.

The coefficient value of the governance disclosure variable is -0.0113 and the significance level is 0.000 ≤ 0.05. So governance disclosure has a negative and significant effect on firm value so that H0 is accepted and H3 is rejected. The conclusion for the governance disclosure variable is that it has a negative and significant effect on firm value in companies listed on the Indonesia Stock Exchange for the 2016-2020 period.

Hypothesis testing of firm size, leverage, and profitability control variables. The probability value is 0.021 ≤ 0.05 for the firm size variable and the coefficient value is -0.2352, the probability value for the leverage variable is 0.000 ≤ 0.05 and the probability value of the profitability variable is 0.000 ≤ 0.05. From the results of these three control variables, the firm size variable has a negative and significant effect so that H0 is accepted and H_4 is rejected. While other control variables have a significant effect on firm value in companies listed on the Indonesia Stock Exchange for the 2016-2020 period so that H_0 is rejected and H_5 & H_6 is accepted.

Discussion

The effect of environmental disclosure on firm value

The study's first hypothesis states that it is suspected that environmental disclosure has a positive and significant effect on firm value. The panel data regression test results in table 3 show that the environmental disclosure variable has a coefficient (β) of 0.1282 and a significance value of 0.05 ≤ with a significance level of 0.05. These results are by hypothesis one (H_1), so it can be said that every company with an environment score has a positive and significant impact on firm value. Thus, the results of this study accept hypothesis one (H_1).

The results of this study are by previous research which states that the company's environmental performance information has added value that will increase the company's value (Alareeni & Hamdan, 2020). In line with Wong et al. (2020) stating that environmental certification to the value of the company (Tobin's Q) increased significantly.

The positive and significant effect of environmental disclosure on company value shows that the more information about the company's environmental responsibility, the better the investor's response to its impact on the company itself, as evidenced by an increase in company value. The positive and significant impact on environmental disclosure on company value also shows that companies using environmental performance information from sustainability reports as a signal of company acceptance by the community and stakeholders will encourage investors to invest.

The effect of environmental disclosure on firm value

The study's second hypothesis states that it is suspected that social disclosure has a positive and significant effect on firm value. The panel data regression test results in table 3 show that the social disclosure variable has a coefficient (β) of 0.0084 and a significance value of 0.002 which is smaller than 0.05. These results are by hypothesis two (H_2), which indicates that the variable social disclosure has a positive and significant effect on firm value. Thus, the results of this study accept hypothesis two (H_2). The results of this study are in line with previous research which explains that partially social disclosure has a positive effect on firm value (Melinda & Wardhani, 2020).

The results of the study which show the positive and significant effect of social disclosure on the value of the company identify that the company has been accepted by the community. The company's legitimacy is shown from the positive response of the public represented by investment activities from investors that affect the increase in company value as indicated by a positive company value. The positive and significant effect of social disclosure on the value of the company also identifies that the company is considered to have been able to demonstrate corporate responsibility to stakeholders by publishing sustainability information, especially to investors for screening in SRI investment activities.

So, the more social disclosure, the more it will affect the value of the company. In addition, the higher the corporate social responsibility, it will attract investors, especially investors who pay attention to non-financial aspects to invest.

The effect of environmental disclosure on firm value

The third hypothesis of the study states that it is suspected that governance disclosure has a positive and significant effect on firm value. The panel data regression test results in table 3 show that the governance disclosure variable has a coefficient (β) of -0.0113 and a significance value of 0.000 which is smaller than 0.05. These results are not by the third hypothesis (H_3), this indicates that the variable of corporate governance disclosure has a negative and significant effect on firm value. Thus, this study's hypothesis three (H_3) results are rejected.

This result is not in line with the results of previous studies that state that governance disclosure positively affects firm value (Alareeni & Hamdan, 2020). However, these results are in line with previous research which states that corporate governance has a negative and significant effect on firm value (Amalia & Rosdiana, 2020).

Effective governance is the management of a company that has a positive impact on the value of the company itself, but it is not by the findings of this study where the negative influence of governance disclosure on company value identifies that it is possible because the practice of corporate governance in the company is indeed implemented, but its implementation still not fully implemented by the company by the principles of corporate governance that are transparency, accountability, responsibility, independence, and fairness or it can be said that the practice of corporate governance is carried out by the company only as a formality as a fulfillment of the company's obligations under the regulations set by the government. so that the implementation of corporate governance has not been carried out optimally. Investors also consider that the practice of corporate governance is not a factor that can be taken into consideration in appreciating the value of the company (Mutmainah, 2015).

CONCLUSION

Based on the results of the analysis and testing of the data in this study, several research conclusions can be proposed. Testing the first hypothesis, it was found that the environment variable's disclosure had a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange. Social disclosure has a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange. Governance disclosure has a negative and significant effect on firm value in companies listed on the Indonesia Stock Exchange. While testing with the control variable, namely the size of the company partially has a significant negative effect on firm value, the leverage and profitability variables partially have a significant effect on firm value. The suggestions that can be considered by the company are considering the non-financial aspects, especially the environmental and social performance of the company, as well as maintaining the performance of corporate governance to encourage investors to invest more in the company. For investors, suggestions that can be considered in sustainable investment decisions, especially to see the value of the company, are to pay more attention to the company's non-financial performance such as environment and social disclosure.

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