

The Effect of Environmental Social and Governance (Esg) on the Value of Companies Listed on the Esg Leaders Indonesia Index

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ABSTRACT: This study aims to examine the influence of Environmental, Social, and Governance (ESG) on firm value. The sample in this study are companies listed on the ESG Leaders Indonesia Index for the 2020-2021 period. Samples were taken using the purposive sampling method. Firm value in this study was projected with Tobinsq, the method used was multiple regression analysis using eviews12 software. The results of this study indicate that only environmental has an effect on firm value, so the higher the disclosure or environmental performance made by a company, the higher the value of a company. the results of testing the Socials and Governance variables show no effect on firm value.

KEYWORDS: Market value, Environmental, Socials, and Governance

I. INTRODUCTION

The main purpose of a company is to improve the welfare of shareholders by increasing the value of the company, the more the value of a company increases, the greater the profit received by stakeholders. There are several ratios in measuring the value of the company. Brigham and Daves (2014) Tobin'sq is a ratio for measuring company value. Tobin's q was popularized by James Tobin (1968), in practice the company's market value, debt value, and asset value are the main things in calculating using Tobinsq.

Several factors can influence corporate value. Corporate governance is an example of internal factors that can affect company value. Bribery and corruption cases are problems in corporate governance. There are external factors such as environmental factors. According to Albertini (2019), environmental performance is a concept related to pollution, energy consumption, and environmental policies carried out by companies. Environmental pollution, water pollution is one of the environmental impacts caused by the company. Social factors from companies and problems regarding human rights violations, and receiving inappropriate salaries. Howard R Bowen (1953) states that social responsibility directs how companies carry out policies according to the values that exist in society. and became the beginning of the concept of implementing ESG which prioritized three main aspects, namely environmental, social, and governance or known as ESG. the term ESG was first used in 2006 in the UN principles of "who cares wins" reports.

In Indonesia, ESG is nothing new, the Indonesia Stock Exchange has joined forces with the United Nations Sustainable Stock Exchange (SSE) since 2019 to encourage sustainable financial actions by companies. In December 2020 IDX created the Indonesia ESG Leaders Index which consists of the 30 best Issuers in implementing ESG. Based on the statement of the Financial Services Authority, the implementation of ESG is very important because it can provide added value to companies and the Indonesian financial market. (Bisnis.com, 2022) A company's commitment to ESG, will certainly have an impact on the company's stock price performance, cost capital, better risk management, and increase in the value of a company. In this study, the data used are disclosures made by companies through their sustainability reports, using the Nasdaq Reposting Guide 2.0 as an indicator of disclosure.

So based on the background above the author is interested in using the topic Environmental, Socials, and Governance (ESG). And based on several studies that have been conducted, by Melinda and Wardhani (2020) it is stated that if a company in Asia has a good ESG value, it will have a positive and significant effect on company value. and other studies by Davis Junius, Adriel Adisurjo, and Y. Arief Rijanto provide different results where ESG has no significant effect on company and market performance. because of the different results found, researchers are interested in using the title "**The Effect of Environmental Social and Governance on Company Values Listed on the ESG Leaders Indonesia Index**"

II. LITERATURE REVIEW AND THEORETICAL REVIEW

II A Literature Review

There have been several studies on ESG and provided several different research results, such as according to Melinda and Wardhani (2020) in their research, companies that have good environmental performance values will have a significant positive influence on company value. Kusuma and Dewi (2019) in their research stated that company environmental performance has a positive effect on

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company value. Ilyas Juliana (2018) also states that environmental performance has a positive effect on company value. and there are differences in research results. According to Tjahjono (2013) in his research, environmental performance does not have a direct influence on firm value.

Melinda and Wardhani (2020) in their research stated that social performance had a positive effect on the value of a company, whereas according to Dewi and Sudaryati (2020) stated that disclosure of social responsibility by companies did not affect company value, Hutabarat and Siswantaya (2017) also stated that Disclosure of corporate social performance has no significant effect on company value

According to Ghazali and Zumaita (2020) in their research stating that corporate governance has no influence on increasing firm value, Husada and Handayani (2020) also stated that corporate governance has no influence on firm value. and Junius et al (2020) also stated that corporate governance has no influence on company value.

II B Stakeholder Theory

Martin Friedman (1963) argues that shareholders are the only stakeholders of the company, then Edward Freeman (1984) has another view in his book entitled "Strategic Management: Stakeholder Approach" he argues that shareholders are one of many stakeholders. where stakeholders according to him are those who are involved in making investments, and affected by the company. Stakeholder group members include customers, employees, suppliers, environmental groups or governments. Ghozali and Chairi (2007) state that companies do not only operate for their own interests but must provide benefits to stakeholders. Handoko (2021) states that theoretical stakeholders do not only focus on maximizing shareholder profits, but also provide benefits to other stakeholders.

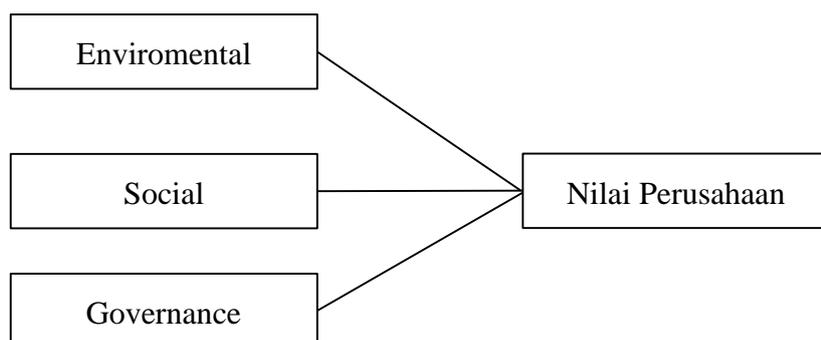
II C Legitimacy Theory

Dowling and Preffer (1975) stated that every organization or company must consider the behavior and decisions related to its environment. Mayers and Scoot (200) state that legitimacy is at the root of the fit between an organization and its cultural environment. so legitimacy is a step taken by the company in accordance with the norms and values prevailing in society. Legitimacy theory relates to the social aspects of ESG where the company will get the social perception of the surrounding community

II D Signalling Theory

The first time put forward by Spence (1973) regarding the behavior of workers in the market to the information obtained. signaling theory explains the actions taken by the signal receiver against the information given. Ross (1977) states that company executives will have better information and are willing to provide information to potential investors. Meanwhile, according to Brigham and Ernhardt (2005) they argue that signal theory is an action taken by company management to provide clues to investors about the future prospects of the company.

Operational Framework



III Research Methodology

The objects in this study are companies listed on the ESG Leaders Indonesia Index, in the 2020-2021 period, the method used in purchasing the sample is purposive sampling, a research sample that fits the criteria in the research provisions. there are 22 companies that meet the criteria in the study out of a total of 30 companies listed on the ESG Leaders Indonesia Index.

In this study, the independent variables are (X1) Environmental, (X2) Social, and (X3) governance. These three aspects are the 3 main aspects of ESG. Measurement Independent variables are measured using values from the company's sustainability report and using indicators from the Nasdaq Reposting Guide 2.0 with (10 indicators in the environmental sector, 10 indicators in the social sector, and 10 indicators in the governance sector).

$$ESG\ Value = \frac{ESG\ Amount\ Disclosure}{The\ total\ amount\ of\ disclosures\ should\ be} \times 100\%$$

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In this study the dependent variable is firm value. Researchers use Tobin's Q formula to determine the value of a company's shares. The Tobin's q formula is formulated as follows:

$$\text{Tobin's Q} = \frac{\text{Market Capitalization} + \text{Liabilities Market Value}}{\text{Total Assets (Total Liabilities + Total Equity)}}$$

Data analysis in this study used multiple regression with the help of the Eviews12 tool with the following formula:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Y = Market Value Company
 α = Constant
 b = Koefisien
 X_1 = Environmental (lingkungan)
 X_2 = Socials
 X_3 = Governance (tata kelola)
 e = Error

IV STATISTICAL RESULT

Table 1. Descriptive Statistical

	TOBINSQ	ENVIRONMENTAL	SOCIALS	GOVERNANCE
Mean	1.427295	7.045455	6.977273	6.090909
Median	1.1125	8	7	6
Maximum	8.996	10	9	10
Minimum	0.262	1	3	2
Std. Dev.	1.326802	2.0226	1.454562	1.639883
Skewness	4.493383	-1.188397	-0.739923	-0.083058
Kurtosis	25.5607	4.211477	3.050963	3.224457
Jarque-Bera	1081.203	13.04752	4.01966	0.142955
Probability	0	0.001468	0.134011	0.931017
Sum	62.801	310	307	268
Sum Sq. Dev.	75.69736	175.9091	90.97727	115.6364
Observations	44	44	44	44

Table one shows the results of the average, maximum, minimum, and also the standard deviation. the average value of the projected company value variable with Tobinsq has an average value of 1.42729, environmental has an average value of 7.045455, socials has an average value of 6.977273, and governance has an average value of 6.090909.

Table 2. Multikolinearitas

	ENVIRONMENTAL	SOCIALS	GOVERNANCE
ENVIRONMENTAL	1.000000000	0.5695029615	0.4544702817
SOCIALS	0.5695029615	1.000000000	0.6833575909
GOVERNANCE	0.4544702817	0.6833575909	1.000000000

Based on the multicollinearity test above, the results show that there is no multicollinearity in the data because the correlation value of each variable has a value smaller than 0.9. Thus the results show that there are no symptoms of multicollinearity in the multiple regression model in this study

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Table 3. Multiple Linear Regression

Dependent Variable: TOBINSQ

Method: Panel Least Squares

Date: 12/18/22 Time: 13:50

Sample: 2020 2021

Periods included: 2

Cross-sections included: 22

Total panels (balanced) observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.420256	0.849708	-2.848338	0.0103
ENVIRONMENTAL	0.337824	0.068842	4.907262	0.0001
SOCIALS	-0.037055	0.099717	-0.371601	0.7143
GOVERNANCE	0.076081	0.064499	1.179565	0.2527

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.242015	R-squared	0.808928
Mean dependent var	0.164731	Adjusted R-squared	0.567574
S.D. dependent var	0.560062	S.E. of regression	0.368292
Akaike info criterion	1.13673	Sum squared resid	2.577136
Schwarz criterion	2.150474	Log likelihood	-0.008057
Hannan-Quinn criter.	1.512675	F-statistic	3.35162
Durbin-Watson stat	3.826087	Prob(F-statistic)	0.004616
Durbin-Watson stat	1.999398	Prob(F-statistic)	0.052236

Unweighted Statistics

R-squared	0.002059	Mean dependent var	0.164731
Sum squared resid	13.45999	Durbin-Watson stat	1.086822

The results of environmental hypothesis testing have a coefficient value of 0.337824, a t-test value of 4.907262, a probability value of 0.0001. This means that environmental has a positive and significant effect on the value of companies listed on the ESG Leaders Indonesia Index. Melinda and Wardhani (2020) state that companies that report better environmental performance will have a higher company value than companies that report less or worse environmental performance. This research is in line with Ilyas Juliana (2018), Kusuma and Dewi (2019), and Mardiani and Wuryani (2019). Which argues that Environmental or environmental performance of companies has a positive effect on company value.

The results of testing the hypothesis of the social have a coefficient value of -0.037055, a t-test value of -0.371601, and a probability value of 0.7143. This means that socials have a negative and insignificant effect on the value of companies listed on the ESG Leaders Indonesia Index. It is concluded that the social performance and disclosures made by the company are still not a reference for investors to make investments, which until now have looked more at the performance and environmental responsibility carried out by the company. And this research is in line with Panjaitan (2015), Hutabarat and Siswantaya (2017), Dewi and Sudaryati (2020), and according to Sejati and Prastiwi (2015) which state that corporate social performance does not affect company value.

The results of governance hypothesis testing have a coefficient value of 0.076081, a t-test value of 1.179565, and a probability value of 0.2527. This means that governance has no effect on the value of companies listed on the ESG Leaders Indonesia Index. This is certainly different from the explanation regarding stakeholder theory where good governance from company stakeholders can affect the value of a company. The results of this study indicate that investors still have not considered corporate governance as a reference for their investment. Where this research is in line with Ghazali and Zumaiti (2020), Husada and Handayani (2021), and research by Junius, Adisurjo, Rijanto, and Adelina (2020) which state that corporate governance does not affect company value

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V. DISCUSSION

Environmental influence on company value

The results of hypothesis testing obtained regarding the environment, including GHG Emissions, Energy Usage, Energy Intensity, Water Usage, Climate Risk Mitigation, and etc have a coefficient value of 0.337824, a t-test value of 4.907262, a probability value of 0.0001. This means that environmental has a positive and significant effect on the value of companies listed on the ESG Leaders Indonesia Index. Where this research is in line with Melinda and Wardhani (2020), Ilyas Juliana (2018), Kusuma and Dewi (2019), and Mardiani and Wuryani (2019). Which argues that the environmental or environmental performance of companies has a positive effect on company value. Melinda and Wardhani (2020) stated that companies that report better environmental performance will have a higher company value than companies that report less or worse environmental performance.

Social influence on company value

Based on the results of the hypothesis, social is measured through aspects of corporate social performance, including Gender Pay Ratio, Employee Turnover, Global Health & Safety, and Human Rights. and Etc. Has a coefficient value of -0.037055, and a probability value of 0.7143. So socials have a negative and insignificant effect on the value of companies listed on the ESG Leaders Indonesia Index. This is different from the stakeholder theory put forward by Freeman, that companies do not only focus on the interests of shareholders, but also on other stakeholders. The difference in the relationship between theory and results in research can be caused by the number of disclosures made by companies. Based on the results of the descriptive statistical test the average value of social factors is at 6.977273 and the maximum value is 9, so there are no companies that have made maximum disclosures. this research is in line with Panjaitan (2015), Hutabarat and Siswantaya (2017), Dewi and Sudaryati (2020), and according to Sejati and Prastiwi (2015) which state that a company's social performance does not affect the company value.

Governance influence on company value

the results of testing the governance hypothesis have a coefficient value of 0.076081 and a probability value of 0.2527. means that governance has no significant effect on the value of companies listed on the ESG Leaders Indonesia Index. This is different from the explanation of signaling theory, where companies that disclose sustainability reports should be accepted as a signal or guide for investors and will increase the value of the company. The difference in results can be caused by the disclosure that has not been carried out optimally by the company. Whereas in the descriptive data the average value of Governance disclosure is in the lowest position of 6.09090. There are 32% of all samples have values below the average, and there are still no companies that have made maximum disclosures. This research is in line with Ghazali and Zumaiti (2020), Husada and Handayani (2021), and research by Junius Adisurjo Rijanto and Adelina (2020) which state that corporate governance does not affect company value. The results of this study indicate that investors still have not considered corporate governance as a reference for their investment.

VI. CONCLUSIONS

This study aims to see how much influence Environmental, Social, and Governance have on Corporate Values listed on the ESG Leaders Indonesia Index. The conclusion of this study is by testing the environmental, social, governance, and company values variables. The results show that only environmental factors have a significant effect on the projected firm value through Tobinisq. while social factors and governance do not have an influence on firm value.

It is recommended for future writers to get better results, it is advisable to add independent variables that can affect the company and to add samples of the companies studied to get broader and clearer data results.

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