

## Beyond profit: How ESG performance influences company value across industries?

Ni Made Desy Dwimayanti<sup>1</sup>, Putu D'yan Yaniartha Sukartha<sup>2\*</sup>, I Gusti Ayu Made Asri Dwija Putri<sup>3</sup>, Eka Ardhani Sisdyani<sup>4</sup>

<sup>1</sup> Department of Accounting, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

<sup>2</sup> Department of Accounting, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

<sup>3</sup> Department of Accounting, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

<sup>4</sup> Department of Accounting, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

\*Corresponding Author(s) Email: dyansukartha@unud.ac.id

---

### ABSTRACT

Evaluating Environmental, Social, and Governance (ESG) scores is essential for understanding a company's long-term sustainability and value. These scores serve as a barometer of a firm's commitment to ethical, environmental, and social practices—attributes that are increasingly valued by both investors and consumers. However, despite their importance, previous studies have been constrained by their focus on smaller sample sizes and exclusive attention to the financial sector. Our study addresses this gap by delivering a comprehensive analysis of the impact of ESG scores on the valuation of companies across diverse industries, while purposefully excluding the financial sector, listed on the Indonesian Stock Exchange from 2019 to 2021. We analyzed 2,169 company-year observations, collected through non-probability purposive sampling, using multiple linear regression in STATA. Our findings reveal a robust correlation between ESG scores and company value, with firms boasting superior ESG scores consistently demonstrating enhanced size and profitability. These results emphasize that a genuine commitment to ESG principles not only elevates performance but also boosts attractiveness to investors, going beyond mere statutory compliance or superficial adoption.

JEL Code:

G32, G34, M14, O16, Q56

DOI:

10.31106/jema.v20i1.20574

Article History:

Received 2022-12-15

Reviewed 2023-02-14

Revised 2023-03-01

Accepted 2023-03-20

Licensed:

CC-BY

Keywords: ESG; Company Value; Corporate Sustainability; Environmental Sustainability; Indonesian Stock Exchange

---

## Introduction

Firm value is a crucial metric that investors use to assess a company's prospects, influencing their investment choices. Enhancing this value is essential to optimizing shareholder wealth. Elevated firm value not only heightens investor confidence in the company's performance but also heralds promising long-term growth. Gregory et al. (2014) suggests that a rise in market value can significantly enhance investor welfare and prosperity. Moreover, Sulbahri (2021) underscores that a company's operational activities are instrumental in maximizing its value. This value is often reflected in the stock price, a comprehensive indicator that encapsulates the assessments of all market participants and serves as a reliable measure of the company's performance. A surge in the stock price within the capital market is typically indicative of the company's ascent to peak value, culminating in amplified investor wealth.

Iskandar & Fran (2016) posit that the visible hallmark of a company's success is its attainment of maximum value, a milestone that concurrently amplifies the prosperity of its investors. Today's investor, however, is navigating an evolving landscape where the evaluation parameters extend beyond the traditional confines of a company's economic value. A surge in environmental awareness has engendered a more holistic appraisal approach where a company's environmental stewardship is under scrutiny (Hermawan et al., 2018; Matitaputty & Davianti, 2020). This shift is attributable to a growing cognizance of the corporate role in environmental preservation amidst escalating environmental challenges. Consequently, the modern investor is characterized by a dual focus that encompasses both financial metrics and a company's alignment with Environmental, Social, and Governance (ESG) principles (Qodary & Tambun, 2021). This diversified focus reflects an investment ethos where profitability is intrinsically linked with corporate social responsibility, underscoring the imperative for companies to harmonize economic ambitions with environmental and societal welfare.

ESG, an acronym for Environmental, Social, and Governance, encompasses non-financial indicators that cover issues of sustainability, ethics, and corporate governance (Melinda & Wardhani, 2020). ESG disclosure serves as a benchmark for corporate investment, where it collates and applies company policies in alignment with environmental, social, and governance philosophies (Noviarianti, 2020). ESG is a critical aspect that can impact a company's value (Fatemi, Glaum, & Kaiser, 2018). Higher ESG scores denote superior environmental performance. Aydoğmuş et al. (2022) assert that ESG reporting can

boost a company's value and popularity. Research by Abdi et al. (2022) in the airline industry indicates that a company's engagement in social and environmental activities affects its value. The prevailing trend is that investors show greater interest in companies with high ESG scores (Dai, Song, You, & Zhang, 2022). ESG disclosure can enhance company performance (Mohammad & Wasiuzzaman, 2021). However, ESG can potentially harm a company's value if investors perceive the disclosure as greenwashing. This view is corroborated by Toti & Johan (2022), who claim that disclosing environmental and social impacts does not necessarily influence a company's value. Zaitul & Hamdi (2020) also found a negative correlation between ESG and firm value.

The non-conclusive nature of much existing research on ESG under Indonesian settings can be attributed to a narrow focus on specific sectors. This research aims to bridge a potential gap by studying ESG practices and their impact on firm value across a broader range of industries within Indonesia. In addition to ESG, this study introduces several control variables and a dummy variable to accommodate non-ESG reporting companies. Control variables function to avoid bias in the effects found between the independent and dependent variables. In this study, an ESG dummy, capital structure, company size, profitability, and leverage as control variables that can influence the value of the company and ESG. Achieving a high value in a company can influence investor trust and interest in investing (Mardani, 2022). If a company wants to achieve a high target value, it must be able to consider the factors that impact and influence the value of the company. These variables, including capital structure, company size, profitability, and liquidity, are used to mitigate any potential bias between the independent and dependent variables.

## **Literature Review**

The corporate landscape is witnessing a transformative shift, with Environmental, Social, and Governance (ESG) criteria emerging as central to organizational evaluation and stakeholder perception. While historically the focus remained steadfast on financial metrics, recent research and industry practices have expanded the evaluation framework (Melinda & Wardhani, 2020). This literature review explores ESG's evolving prominence, elucidating its impact on firm value and stakeholder trust. They also identify ESG as the confluence of sustainability, ethical integrity, and governance efficacy, marking a transition from exclusive profit orientation to inclusive, sustainable operational frameworks. Noviaranti (2020) echoes this, positioning ESG as an operational compass directing corporate investments and policy

formulations, harmoniously aligning economic ambitions with ethical and environmental imperatives.

The environmental facet of ESG underscores the corporate commitment to ecological stewardship. Activities such as carbon emissions disclosures, addressing waste pollution, and initiatives tackling the multifaceted impacts of climate change have taken center stage (Borralho, 2022). Recent advancements in sustainable technology and green initiatives further spotlight companies' responsibilities to their surroundings and the larger global ecosystem.

On the social front, companies are being assessed not only based on their products and services but also on their societal impact. Aspects of social welfare, workplace culture, community engagement, and even pressing issues such as forced labor and human trafficking are under scrutiny. The responsibility is dual: while companies need to ensure that they are not inadvertently supporting such malpractices, there's an increasing expectation to actively work against them. Triyani et al. (2020) shed light on the governance aspect of ESG, highlighting the distribution of authority within corporations. This goes beyond mere structural hierarchy; it touches upon ethical leadership, transparent decision-making processes, and the role of various stakeholders in shaping corporate trajectories.

In capital markets, the role of ESG has magnified, with transparent ESG disclosures playing a pivotal role in determining a company's market worth. Companies that present comprehensive and precise environmental and social performance reports often find themselves favorably positioned in market valuations. This phenomenon isn't just a trend; it signifies a deeper alignment of market forces with sustainable and ethical business practices.

The debate persists regarding whether ESG information disclosure directly contributes to value creation and the underlying drivers. Scholars such as Cho et al. (2006), Garay & Font (2012), and Madsen & Rodgers (2015) have noted the absence of a conclusive answer. On the side of proponents, research by Eccles et al. (2011) has demonstrated that when ESG practices are differentiated from traditional accounting, ESG disclosures contribute a nuanced dimension to financial data. Over the past two decades, there has been a marked shift in the emphasis of business reporting towards non-financial information. This transition is evident in the significant reduction of tangible assets' contribution to a company's market capitalization, which declined from 82% to just 19% between 1975 and 2009 (Eccles et al., 2011). Furthermore, Goldstein & Yang (2015) concur that ESG disclosures enhance price informativeness.

Several studies have connected ESG disclosure with enhanced internal management practices. Dhaliwal et al. (2011) and Vilanova et al. (2009) suggest that ESG disclosures can foster stronger stakeholder relationships. From a managerial perspective, Chen et al. (2007) contend that stock price information, when understood, can be embedded into corporate decisions. Subsequently, Cheng et al. (2014) propose a feedback loop: ESG transparency could catalyze further improvements in internal controls, aligning with stakeholders' interests, ultimately enhancing firm value.

The literature underscores a notable reduction in information asymmetry attributed to the comprehensive disclosure of ESG metrics. Banerjee et al. (2014) argue that this heightened transparency can enhance a firm's operating performance and overall value by fostering robust relationships with vital stakeholders. This aligns with the view that a positive public perception, influenced by comprehensive ESG disclosure, can reinforce consumer trust and subsequently elevate profitability.

As ESG transparency becomes increasingly pivotal, its influential contours are palpably etching investment landscapes. Works by Dubbink et al. (2008), Eccles et al. (2014), and Serafeim (2014) collectively underscore ESG's role in illuminating insights on corporate social, environmental, and governance paradigms. This is further corroborated by Van Duuren et al. (2016), who articulate that ESG metrics are now integral to risk evaluations by both socially conscious and traditional asset fund managers.

Furthermore, the symbiotic relationship between ESG initiatives and market value is accentuated by Gregory et al. (2014). They delineate a scenario where robust ESG performances correlate with appreciating stock prices, fostering enriched investor welfare. Sulbahri (2021) amplifies this narrative, positing that a strategic ESG alignment not only catapults firms to elevated market valuations but epitomizes a confluence of heightened investor confidence, managerial efficacy, and enriched corporate reputation, manifested palpably in ascendant stock prices.

### ***Stakeholder Theory***

Stakeholder theory outlines a company's obligations to various parties instrumental to its operation (Wirawati et al., 2020). Stakeholders, characterized as entities influencing or being influenced by a company's goals, are classified as internal or external (Gregory et al., 2014). Internal stakeholders, including employees, shareholders, and managers, are intricately linked to the company's resources and operations. In contrast, external stakeholders like suppliers,

communities, consumers, and government agencies are impacted by the company's decisions and actions but operate outside its immediate realm.

Wahyuningsih et al. (2022) emphasize that the crux of stakeholder theory lies in augmenting value for stakeholders to bolster the company's objectives. In this ecosystem, stakeholders wield significant control, especially through disclosure activities (Mujiani et al., 2019). The strategic disclosure of Environmental, Social, and Governance (ESG) factors emerges as a pivotal tool for enhancing stakeholder trust. A meticulous commitment to these social imperatives garners robust stakeholder backing, catalyzing a positive corporate image and augmenting firm value.

This study draws upon Stakeholder Theory, which elucidates the parties to whom a company is responsible (Wirawati et al., 2020). Stakeholders, comprising both individuals and groups, play a significant role in influencing and being influenced by the achievement of an organization's goals. They encompass all internal and external parties that directly or indirectly impact, or are impacted by, the company. Stakeholders are typically categorized into two groups: internal stakeholders and external stakeholders (Gregory et al., 2014). The disclosure of Environmental, Social, and Governance (ESG) factors can be a strategic approach for corporations to increase stakeholder trust. If a company demonstrates robust commitment to social and environmental concerns, stakeholders are more likely to fully support the company's activities. This, in turn, positively impacts the company's image, which can enhance the company's value.

Companies play a significant role in activities related to the environment and society. Nowadays, companies are increasingly expected to disclose all their social activities for stakeholders' benefit. Among these disclosures, Environmental, Social, and Governance (ESG) reporting is prominent, often addressing the impact of climate change. Information pertaining to ESG disclosure contributes to creating a more conducive and improved business environment. A company is deemed transparent if it can deliver comprehensive information to stakeholders, compared to those that do not make such disclosures. This aligns with stakeholder theory, which advocates that a company should offer benefits to stakeholders, ensuring their support for all company activities. These benefits are typically provided through sharing information about company operations. Stakeholders now believe that profit is not the sole focus in conducting business. Investors will consider investing their capital if a company demonstrates responsible behavior towards the surrounding environment.

The disclosure of a company's ESG (Environmental, Social, and Governance) is performed as a form of the company's social responsibility towards the environment. ESG disclosure can also build good relationships and enhance the trust of stakeholders, thereby enabling the sustainable survival of the company. However, not all companies disclose their ESG due to the significant cost required for such information, which is seen as potentially detrimental to the company. On the other hand, ESG disclosure can be a crucial aspect in influencing the value of a company (Fatemi et al., 2018).

H<sub>1</sub>: There is a difference between companies that disclose ESG and companies that do not disclose ESG.

This research is also based on the social contract that can be established between an entity and a public group, forming the foundation of legitimacy theory. According to this theory, an organization or company must always prioritize societal rights, which are not solely the property of investors (Zuhrufiyah & Anggraeni, 2019). This theory emphasizes the relevance of legitimacy in relation to the environmental impacts of corporate activities (Alfayerds & Setiawan, 2021). One method for obtaining legitimacy involves providing comprehensive information about the company's operational activities and their environmental implications. Once legitimacy is secured, a company can proceed with its operational activities. This, in turn, enhances the company's image and reputation in the eyes of stakeholders. This dynamic significantly impacts the overall value of the company.

Legitimacy theory elucidates the interactions between companies and their surrounding environment. Environmental, Social, and Governance (ESG) disclosures strategically serve as a bridge between the company and society. Companies must work to enhance their legitimacy within the community by conducting operations that do not harm the environment (Irwhantoko & Basuki, 2016). If the relationship between the company and stakeholders operates as expected, it positively impacts the company's value. These statements align with the research of Aboud & Diab (2018) and Fatemi et al. (2018), which suggest that ESG has a positive relationship with company value. Furthermore, according to Abdi et al. (2022) and Aydoğmuş et al. (2022), a high ESG score correlates positively with firm value. Similarly, research by Dai et al. (2022) and Melinda and Wardhani (2020) also posits that ESG can significantly affect a company's value, as a higher ESG score reflects improved environmental performance, contributing to the company's value.

Disclosing Environmental, Social, and Governance (ESG) information can attract investor interest and enhance company value. Investors tend to prefer investing in companies that

transparently disclose ESG details, as opposed to those that do not (Melinda & Wardhani, 2020). Ghazali & Zulmaita (2022) note that investor interest in companies implementing ESG disclosures can indirectly boost the financial performance and reputation of these companies in the public eye. Companies with high ESG scores often outperform and draw more investor attention compared to those with lower scores (Nugroho & Hersugondo, 2022).

H<sub>2</sub>: ESG has a positive relationship with firm value.

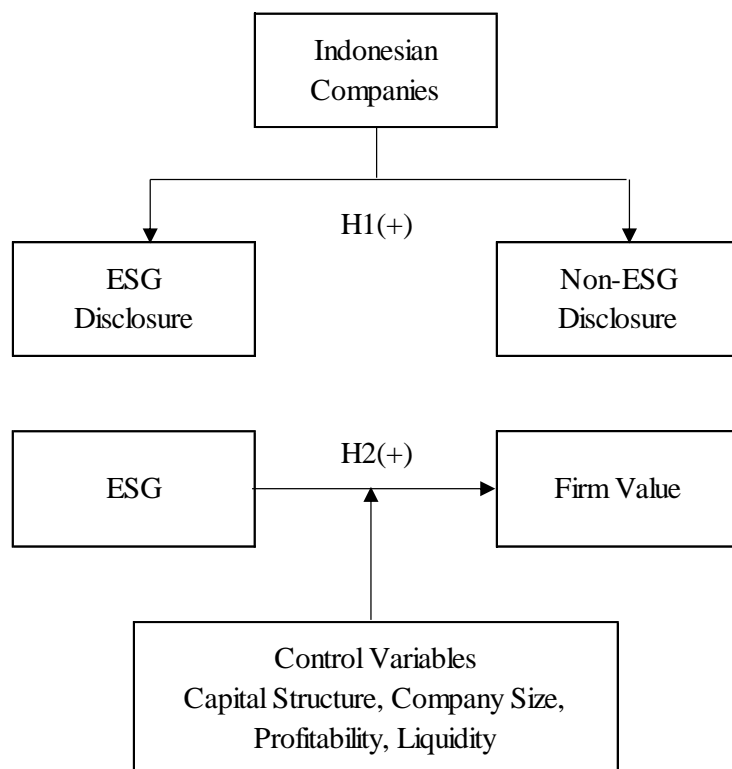
## Methods

This research was undertaken at the Indonesia Stock Exchange (IDX), with the relevant data sourced from the Refinitiv EIKON. The study encompasses all companies listed on the IDX from 2019 to 2021. The primary focus of this research is firm value, which is postulated to correlate with Environmental, Social, and Governance (ESG) factors and control variables, the latter being proxied using financial ratios for all IDX-listed companies over the specified period. The population for this study consists of all companies listed on the IDX from 2019 to 2021, amounting to a total of 2,418 company year observations. The sample, on the other hand, is limited to non-financial companies listed on the IDX during the same period, given the prerequisite that these companies publish annual financial and sustainability reports. The selection process for the research sample was guided by the purposive sampling method. Adhering to these sample criteria culminated in a total of 2,169 firm-year observations, forming the dataset for subsequent analysis in this study. This refined dataset allows for an in-depth exploration of the hypothesized relationships between firm value, ESG factors, and financial performance indicators.

In this study, the dependent variable is firm value (Y), measured by the performance indicators of a company's asset management, specifically market capitalization or the market value of equity (MVE). The value of a company is used as a measure of company management success and can increase investor confidence. The realization of investor welfare reflects the magnitude of a company's value. A high company value leads to high investor confidence in the company. The company's value becomes a picture of management implementation and from the investor's perspective (Firmansyah, Jadi, Febrian, & Fasita, 2021). The formula used to calculate the market value of equity, as established by Zuhrufiyah and Anggraeni (2019), is as follows:

$$MVE = \text{Number of Outstanding Shares} \times \text{Share Price} \quad (1)$$

**Figure 1.** Research Framework



In this study, the independent variable is Environmental, Social, and Governance (ESG) performance, as measured by the Thomson Reuters ESG score. To determine this score, Thomson Reuters utilizes over 400 distinct ESG metrics to assess company-level performance, including Indonesian firms. A curated selection of 178 metrics, chosen based on their relevance, comparability, and data availability, serves as the foundation for evaluating and scoring companies. These metrics are further grouped into 10 categories, which are then aggregated—weighed by the number of measures within each—to form the three core ESG pillars: Environmental, Social, and Corporate Governance. The resulting score offers a comprehensive representation of a company's ESG commitment and performance, all derived from publicly disclosed data. For the purposes of this research, the focus lies predominantly on the environmental performance variables derived from the overall ESG scores, ensuring a holistic reflection of environmental performance within the broader ESG context.

The control variables in this study include the dummy ESG, company size, capital structure, profitability, and liquidity. The dummy ESG serves as a comparative measure between companies that disclose ESG and those that do not, thereby helping to determine whether high corporate value is associated with ESG disclosure. The dummy ESG is

quantified by assigning a score of 1 to companies that disclose ESG and a score of 0 to those that do not.

Capital structure refers to the ratio of a company's debt to equity in relation to its capital (Muzayin & Trisnawati, 2022). In this study, the capital structure will be measured using the Debt to Equity Ratio (DER), a ratio designed to calculate the extent of debt utilization relative to the company's capital (Vernando and Erawati, 2020).

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \quad (2)$$

Company size, often assessed through average net sales over a specified period, is a pivotal indicator of future financial performance (Pratiwi et al., 2016). Nursetya and Hidayati (2020) advocate for the use of total assets as a benchmark to gauge company size, encompassing both financial and non-financial assets, a perspective echoed by Hapsoro and Falih (2020). A larger asset base is typically correlated with an enhanced potential for future profitability (Setiadharmas & Machali, 2017). The quantification of company size is delineated as follows:

$$\text{Firm size} = \ln(\text{Total assets}) \quad (3)$$

Profitability is a ratio that signifies a company's ability to generate profit over a given period, offering insight into the effectiveness of management's operational activities (Soetjanto & Thamrin, 2020). High profitability can potentially reduce the company's debt burden, thereby increasing the company's value as it becomes less reliant on debt (Vitari & Raguseo, 2020). Profitability, often measured through the Return on Assets (ROA), indicates how efficiently a company's management is using its assets to generate earnings. A higher ROA value typically signals enhanced profitability, showcasing the firm's ability to optimize its asset base for revenue generation (Hapsoro & Falih, 2020).

$$ROA = \frac{\text{Earnings before Tax}}{\text{Total Assets}} \quad (4)$$

Liquidity is a ratio that reflects a company's capacity to meet its short-term debt obligations promptly (Iman, Sari, & Pujiati, 2021). In this study, liquidity is measured by the current ratio (CR), which is a comparison between a company's current assets and current liabilities (Sukarya & Baskara, 2018). The formula utilized to calculate company liquidity, as provided by Soetjanto and Thamrin (2020), is:

$$CR = \frac{\text{Current Asset}}{\text{Current Liability}} \quad (5)$$

## Result and Discussion

**Table 1.** Descriptive Statistical Analysis

Variables	Observation	Mean	Std. Deviation	Min	Max
MVE (Billion Rupiah)	2169	5.40	23.50	0	400
ESG Score	2169	2.69	11.84	0	84.41
DER	2169	2.26	70.28	0	3192.06
ROA (%)	2169	2.51	13.72	-95.72	73.01
SIZE (Billion Rupiah)	2169	7.67	32.90	0	153.00
CR (%)	2169	3.02	6.62	0	98.63

**Note:** *MVE*: The dependent variable, which represents the firm value calculated by multiplying the number of outstanding shares with the share price; *ESG*: the measure of environmental, social and governance practices proxied by Thomson-Reuters ESG score; *Dummy ESG*: a dummy variable coded 1 for companies disclosing their ESG practices and 0 otherwise; *DER*: Capital structure measure as total debt divided by total equity; *SIZE*: company size measured as the natural logarithm of total assets for company *i* at time *t* in million rupiahs; *ROA*: the measure of profitability, calculated as net income before taxes over total assets for company *i* at time *t*; *CR*: the measure of liquidity, calculated as current asset divided by current liability

**Table 2.** Correlation Statistical Analysis

Variables	MVE	ESG	DER	ROA	TA	CR
MVE	1					
ESG	0.504*	1				
DER	-0.004	-0.006	1			
ROA	0.163*	0.123*	0.007	1		
SIZE	0.004	-0.002	-0.001	-0.004	1	
CR	-0.018	-0.039	-0.014	0.030	-0.002	1

**Note:** *MVE*: The dependent variable, which represents the firm value calculated by multiplying the number of outstanding shares with the share price; *ESG*: the measure of environmental, social and governance practices proxied by Thomson-Reuters ESG score; *Dummy ESG*: a dummy variable coded 1 for companies disclosing their ESG practices and 0 otherwise; *DER*: Capital structure measure as total debt divided by total equity; *SIZE*: company size measured as the natural logarithm of total assets for company *i* at time *t* in million rupiahs; *ROA*: the measure of profitability, calculated as net income before taxes over total assets for company *i* at time *t*; *CR*: the measure of liquidity, calculated as current asset divided by current liability

Descriptive statistics are employed in data analysis with the objective of describing the collected data, without initially drawing conclusions (Sugiyono, 2013). The results derived from descriptive statistics can be viewed in Table 1. The dependent variable, firm value (Y), proxied by MVE, reveals a minimum value of 0, with a maximum of 400 billion. The highest firm value is attained by PT Telkom Indonesia (Persero) Tbk. The mean value of the firm value variable is 5.40 billion, which is significantly lower than the standard deviation of 23.50 billion. This suggests that the distribution of company value data is not even, or there

exists a considerable range in data values. Thus, it can be inferred that the sample primarily includes smaller companies, with a few large corporations. The ESG variable (X), as gauged by the ESG score, ranges from a minimum value of 0 to a maximum of 84.41, the latter owned by Bumi Resources Tbk. The mean value of the ESG variable is 2.69, closer to the minimum, indicating a generally low ESG score across companies. A standard deviation of 11.84, exceeding the mean value, underscores that the distribution of ESG data is uneven, suggesting a prevalence of low ESG scores among the companies.

In this study, capital structure, one of the control variables, ranges from a minimum value of 0 to a maximum of 3192.06, the latter being observed in the case of Bakrie Telecom Tbk. The mean value stands at 2.26, and there is a considerable standard deviation of 70.28, indicating a wide dispersion of data around this mean. Another control variable, company size, demonstrates a range from a minimum of 0 to a peak of 153.00 billion. The mean value hovers around 7.67 billion, and with a standard deviation of 32.90 billion, there is evidence of significant variability in the sizes of the companies examined in this study (Johnson & Williams, 2022). Liquidity, the third control variable, varies from a low of 0 percent to a high of 98.63 percent, the latter attributed to Inti Agri Resources Tbk. The data exhibits an average liquidity of 3.02 percent and a standard deviation of 6.62 percent, indicating a diverse liquidity range among the sampled companies.

Additionally, a correlation test was employed to quantify the linear relationship between pairs of quantitative variables, with results detailed in Table 2. The correlation coefficient, ranging from -1 to 1, serves as the metric of this relational assessment. A coefficient approaching 1 denotes a strong positive correlation, whereas a value nearing -1 is indicative of a potent negative correlation. Conversely, a coefficient proximate to 0 infers a trivial or non-existent correlation between the variables under. In the context of time series data, the absence of autocorrelation is pivotal as it underscores that subsequent data point are not replicative of their predecessors, thereby upholding the principle of residual independence in regression analyses. Our analysis affirmed that no pair of variables exhibited a correlation coefficient exceeding 0.6, thereby validating the absence of significant autocorrelation. This ensures the integrity of each variable as a conveyor of unique and independent information, bolstering the reliability of the analytical outcomes.

This study also incorporates a difference test aimed at determining variations in firm value, capital structure, company size, profitability, and liquidity, between companies that disclose ESG and those that do not. The results of the difference test can be found in Table 3.

**Table 3.** Difference Test Results

Variables	ESG Cluster	Observations	Mean	Mean Differences	Sig.
MVE	0	2043	2.00	-5.09	0.00
	1	126	5.33		
DER	0	2043	2.38	2.11	0.74
	1	126	0.26		
ROA	0	2043	2.09	-7.20	0.00
	1	126	9.29		
SIZE	0	2043	19.56	-2.89	0.00
	1	126	22.46		
CR	0	2043	3.09	1.16	0.06
	1	126	1.92		

**Note:** *MVE*: The dependent variable, which represents the firm value calculated by multiplying the number of outstanding shares with the share price; *ESG*: the measure of environmental, social and governance practices proxied by Thomson-Reuters ESG score; *Dummy ESG*: a dummy variable coded 1 for companies disclosing their ESG practices and 0 otherwise; *DER*: Capital structure measure as total debt divided by total equity; *SIZE*: company size measured as the natural logarithm of total assets for company *i* at time *t* in million rupiahs; *ROA*: the measure of profitability, calculated as net income before taxes over total assets for company *i* at time *t*; *CR*: the measure of liquidity, calculated as current asset divided by current liability

**Table 4.** Multiple Linear Regression Analysis

	Coefficient	Z-Value	Sig.
ESG	9.16	25.18	0.00
DER	0.15	0.25	0.80
ROA	16.87	5.44	0.00
CR	-1.81	-0.28	0.78
SIZE	12.90	10.76	0.00
Constant	-2.29	-9.56	0.00
F-Statistics	186.64 (0.00)		
Adj. R <sup>2</sup>	0.300		

Table 3 provides valuable insights into the relationship between firm characteristics and ESG scores. The data indicate a positive association between higher market value, increased profitability, and a larger asset base with superior ESG scores. This relationship suggests that firms with notable performance and significant resources are more likely to adhere to ESG standards, implying the acceptance of H<sub>1</sub> partially. Effective integration of ESG principles

can bolster a company's profitability. An elevated ESG score signifies commendable environmental, social, and governance practices, which not only align with a company's operational endeavors but also resonate with prevailing norms. Such alignment is attractive to investors, potentially augmenting firm value. Gillan and Starks (2021) argues that in the contemporary investment landscape, a noticeable predilection is observable among investors, marked by a distinct inclination towards companies that are transparent in their ESG disclosures. This trend is not ephemeral but appears to be a cementing paradigm, highlighting the integral role of ESG compliance not just as a corporate responsibility, but as a strategic instrument for bolstering investor confidence and, by extension, firm value.

Table 3 further reveals that the capital structure (DER) does not significantly affect ESG adherence. This suggests that the blend of debt and equity a company employs to finance its operations does not directly influence its commitment to environmental, social, and governance principles. This is attributed to the inherent nature of capital structure, which is primarily concerned with the cost of capital, financial risk management, and optimization of shareholder value. Conversely, ESG criteria are centered around a company's practices relating to environmental sustainability, social responsibility, and governance efficacy, factors not directly associated with its financial structuring.

Moreover, the analysis illuminates a nuanced observation regarding liquidity, marked by a p-value of 0.06. This finding underscores that while ESG practices are correlated with increased firm valuation, they also impose a strain on the company's liquidity, albeit not at a significant level. The marginal impact on liquidity underscores a trade-off that companies navigate when implementing ESG initiatives. Firms, especially well-established and efficiently managed ones, carefully balance the augmentation of value through ESG adherence with the imperative of maintaining operational liquidity. This delicate equilibrium is indicative of the multidimensional impacts of ESG incorporation, reflecting the complex interplay between sustainable practices, financial performance, and operational efficiency.

H<sub>2</sub> of this study proposes a positive relationship between ESG and firm value. The hypothesis testing results reveal that ESG has a positive relationship with firm value, leading to the acceptance of H<sub>2</sub>. The ESG coefficient manifests a t-value of 9.16 and a significance level of 0.00 (Table 4), again under the 0.05 benchmark. These findings resonate with the studies of Abdi et al. (2022), Fatemi et al. (2018), and Melinda & Wardhani (2020), who affirmed that ESG positively correlates with firm value. Subsequently, the positive magnitude of the t-value indicates a direct, statistically significant relationship between ESG disclosures

and firm value. In simpler terms, as companies heighten their commitment to ESG principles, they are more likely to witness an appreciation in their market valuation. Such an empirical relationship validates the growing emphasis placed on sustainable and ethical business practices by investors, stakeholders, and the broader market. It is evident that contemporary market participants no longer exclusively assess firms based on financial metrics; they deeply consider the holistic approach firms adopt toward environmental, social, and governance challenges. A higher ESG score typically translates into a higher firm value because it increases investor confidence, which subsequently influences stock prices. This enhancement in stock prices impacts the firm's stock returns.

These findings are not merely statistical artefacts but resonate deeply with the foundational tenets of the stakeholder theory, which is ingrained in the ethos of amplifying stakeholder value as a conduit to bolstering a company's trajectory and future prospects. The resonance of ESG disclosure transcends the numerical and financial dimensions, infiltrating the qualitative realms of corporate image and reputation. The findings of this study articulate a clear narrative; companies that are adept in navigating and implementing ESG parameters witness an augmentation in their brand equity. The amplification of a positive corporate image, in turn, becomes a magnet that attracts a diverse array of stakeholders, culminating in an enhanced firm value.

Moreover, table 4 also reveals that the ESG coefficient of the study stands at 9.16, implying that a one-unit rise in the ESG score, while keeping other variables constant, elevates the firm value by 9.16 units. The study incorporated a model feasibility test to evaluate the aptness of the multiple regression model in portraying the relationship between the independent and dependent variables. As displayed in Table 4, a significance level of 0.00, falling below the 0.05 threshold, corroborates the suitability of the multiple linear regression model for this study. Moreover, the  $R^2$  value of 0.300 indicates that all the independent variables collectively explain 30 percent of the variation in the dependent variable. The remaining 70 percent (calculated as 100 percent - 30 percent) is presumably influenced by other variables not included in the regression model.

Another salient finding corroborates the results from the difference of means test. Specifically, the control variables of profitability, proxied by ROA, and company size, represented by total assets, are both significantly associated with enhanced company value. This suggests that confounding variables are less likely to obscure the results of the regression. Additionally, the capital structure was not found to be related to company value.

Ross et al. (2015) argue that managers should select a capital structure they believe maximizes firm value, as such a structure would most benefit the firm's shareholders. Concurrently, liquidity was also found to be unrelated to firm value. A possible explanation is provided by Markonah et al. (2020), who suggests that liquidity becomes less pivotal when most other company indicators display positive values. This underscores the notion that companies should consider multiple indicators when assessing financial health and performance.

In further analyses, the empirical study also meticulously assessed the influence of industry-specific factors, utilizing the Global Industry Classification Standard (GICS) for categorization. The GICS classifies the global market into 11 discrete sectors. Yet, for the scope of this investigation, the financial and utilities sectors were deliberately excluded, narrowing our focus to nine pertinent sectors. The introduction of industry as a control variable in the regression model is grounded in the understanding that individual sectors inherently possess varying characteristics, performance dynamics, and susceptibilities to external influences. By adjusting for industry, our aim was to segregate industry-driven effects, facilitating a more lucid comprehension of the principal relationship being explored. From the derived results, the positive associations observed within the consumer staples and healthcare sectors suggest that, when compared to other sectors in the model, these two sectors manifested a notably favorable relationship with the dependent variable. Such outcomes might be ascribed to a range of sector-specific attributes. Notably, both the consumer staples and healthcare sectors demonstrated industry resilience, distinctive growth trajectories, and strict adherence to regulatory frameworks. These findings underscore the need for further research to attain a more holistic understanding.

## **Conclusion and Suggestion**

Based on the research results and hypothesis testing conducted, it can be concluded that there is a significant difference between companies that disclose their ESG scores and those that do not. These results reveal that companies disclosing ESG scores have a higher firm value, profitability, and size compared to those that do not disclose their ESG scores. ESG has a positive and significant impact on firm value, suggesting that the better a company discloses its ESG scores, the higher its firm value. Furthermore, the findings align with the burgeoning global emphasis on sustainable and responsible business practices. ESG disclosure acts not only as a reflection of corporate social responsibility but also as an indicator of a firm's strategic foresight and risk management, characteristics highly prized by

informed investors and stakeholders. The data underscores the critical role of transparency and accountability in engendering trust, amplifying stakeholder confidence, and fostering a positive corporate reputation.

The robust correlation between ESG disclosure and enhanced firm value can be attributed to several factors. Companies that disclose their ESG scores often embody operational efficiency, ethical governance, and social responsibility, which are seen as indicators of long-term sustainability and reduced business risk. The increased profitability and size of these companies are testimonies to the market's positive reception of transparent and ethical business conduct. In the competitive business landscape, ESG disclosure serves as a differentiator, enhancing investor appeal and customer loyalty. Companies with disclosed ESG scores are perceived as entities that are not only attuned to maximizing shareholder value but are also committed to societal and environmental well-being.

Our study paves the way for a myriad of future research trajectories. While we have comprehensively analyzed a broad array of companies, future studies could potentially harness a more granular approach, segmenting industries to discern sector-specific impacts of ESG scores on company value. Each industry, with its unique set of challenges and opportunities, might exhibit distinct dynamics in the ESG-value relationship. Another promising avenue is the comparative analysis of ESG impacts across different geographical and regulatory contexts. How do ESG scores correlate with company values in developed versus emerging markets? How do regulatory landscapes and cultural nuances influence this relationship? Answering these questions could unravel intricate global patterns, offering multi-dimensional insights valuable for investors and policymakers alike. Lastly, integrating qualitative methods, such as case studies or interviews, and extending the temporal scope beyond 2021, could enrich the quantitative findings. A mixed-method approach could offer holistic insights, marrying numbers with narratives to provide a comprehensive understanding of how and why ESG scores impact company value, illuminating the underlying mechanisms and stakeholder perceptions.

## References

Abdi, Y., Li, X., & Càmara-Turull, X. (2022). Exploring the impact of sustainability (esg) disclosure on firm value and financial performance (fp) in airline industry: The moderating role of size and age. *Environment, Development and Sustainability*, 24(4), 5052-5079. <https://doi.org/10.1007/s10668-021-01649-w>

- Aboud, A., & Diab, A. (2018). The impact of social, environmental and corporate governance disclosures on firm value: Evidence from Egypt. *Journal of Accounting in Emerging Economies*, 8(4), 442-458. <https://doi.org/10.1108/JAEE-08-2017-0079>
- Alfayerds, W. D., & Setiawan, M. A. (2021). Pengaruh pengungkapan emisi karbon dan annual report readability terhadap nilai perusahaan. *Jurnal Eksplorasi Akuntansi*, 3(2), 349-363. <https://doi.org/10.24036/jea.v3i2.363>
- Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. *Borsa Istanbul Review*. <https://doi.org/10.1016/j.bir.2022.11.0>
- Banerjee, S., Chang, X., Fu, K., Li, T., & Wong, G. (2014). Corporate environmental risk and the customer-supplier relationship. *Available at SSRN 2533471*.
- Borrhalho, J. M., Hernandez-Linares, R., Gallardo-Vazquez, D., & de Sousa Paiva, I. C. (2022). Environmental, social and governance disclosure's impacts on earnings management: Family versus non-family firms. *Journal of Cleaner Production*, 379, 134603. <https://doi.org/10.1016/j.jclepro.2022.134603>
- Chen, Q., Goldstein, I., & Jiang, W. (2007). Price informativeness and investment sensitivity to stock price. *The Review of Financial Studies*, 20(3), 619-650. <https://doi.org/10.1093/rfs/hhl024>
- Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic Management Journal*, 35(1), 1-23. <https://doi.org/10.1002/smj.2131>
- Cho, C. H., Patten, D. M., & Roberts, R. W. (2006). Corporate political strategy: An examination of the relation between political expenditures, environmental performance, and environmental disclosure. *Journal of Business Ethics*, 67, 139-154. <https://doi.org/10.1007/s10551-006-9019-3>
- Dai, L., Song, C., You, Y., & Zhang, W. (2022). Do sovereign wealth funds value ESG engagement? Evidence from target firm's CSR performance. *Finance Research Letters*, 50, 103226. <https://doi.org/10.1016/j.frl.2022.103226>
- Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review*, 86(1), 59-100. <https://doi.org/10.2308/accr.000000005>

- Dubbink, W., Graafland, J., & Van Liedekerke, L. (2008). CSR, transparency and the role of intermediate organisations. *Journal of Business Ethics*, 82, 391-406.  
<https://doi.org/10.1007/s10551-008-9893-y>
- Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management science*, 60(11), 2835-2857.  
<https://doi.org/10.1287/mnsc.2014.1984>
- Eccles, R. G., Serafeim, G., & Krzus, M. P. (2011). Market interest in nonfinancial information. *Journal of Applied Corporate Finance*, 23(4), 113-127.  
<https://doi.org/10.1111/j.1745-6622.2011.00357.x>
- Fatemi, A., Glaum, M., & Kaiser, S. (2018). Esg performance and firm value: The moderating role of disclosure. *Global finance journal*, 38, 45-64.  
<https://doi.org/10.1016/j.gfj.2017.03.001>
- Firmansyah, A., Jadi, P. H., Febrian, W., & Fasita, E. (2021). Respon pasar atas pengungkapan emisi karbon di indonesia: Bagaimana peran tata kelola perusahaan. *Jurnal Magister Akuntansi Trisakti Vol*, 8(2). <http://dx.doi.org/10.25105/jmat.v8i2.9789>
- Garay, L., & Font, X. (2012). Doing good to do well? Corporate social responsibility reasons, practices and impacts in small and medium accommodation enterprises. *International Journal of Hospitality Management*, 31(2), 329-337.  
<https://doi.org/10.1016/j.ijhm.2011.04.013>
- Ghazali, A., & Zulmaita, Z. (2022). *Pengaruh pengungkapan environmental, social, and governance (esg) terhadap tingkat profitabilitas perusahaan (studi pada perusahaan sektor infrastruktur yang terdaftar di bursa efek indonesia)*. Paper presented at the Seminar Nasional Akuntansi dan Manajemen PNJ.
- Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, 66, 101889.  
<https://doi.org/10.1016/j.jcorpfin.2021.101889>
- Goldstein, I., & Yang, L. (2015). Information diversity and complementarities in trading and information acquisition. *The Journal of Finance*, 70(4), 1723-1765.  
<https://doi.org/10.1111/jofi.12226>

- Gregory, A., Tharyan, R., & Whittaker, J. (2014). Corporate social responsibility and firm value: Disaggregating the effects on cash flow, risk and growth. *Journal of Business Ethics*, 124, 633-657. <https://doi.org/10.1007/s10551-013-1898-5>
- Hapsoro, D., & Falih, Z. N. (2020). The effect of firm size, profitability, and liquidity on the firm value moderated by carbon emission disclosure. *Journal of Accounting and Investment*, 21(2), 240-257. <https://doi.org/10.18196/jai.2102147>
- Hermawan, A., Aisyah, I. S., Gunardi, A., & Putri, W. Y. (2018). Going green: Determinants of carbon emission disclosure in manufacturing companies in indonesia. *International Journal of Energy Economics and Policy*, 8(1), 55.
- Iman, C., Sari, F. N., & Pujiati, N. (2021). Pengaruh likuiditas dan profitabilitas terhadap nilai perusahaan. *Perspektif: Jurnal Ekonomi dan Manajemen Akademi Bina Sarana Informatika*, 19(2), 191-198. <https://doi.org/10.31294/jp.v19i2.11393>
- Irwhantoko, I., & Basuki, B. (2016). Carbon emission disclosure: Studi pada perusahaan manufaktur indonesia. *Jurnal akuntansi dan Keuangan*, 18(2), 92-104. <https://doi.org/10.9744/jak.18.2.92-104>
- Iskandar, D., & Fran, E. (2016). The effect of carbon emissions disclosure and corporate social responsibility on the firm value with environmental performance as variable control. *Research Journal of Finance and Accounting*, 7(9), 122-130.
- Madsen, P. M., & Rodgers, Z. J. (2015). Looking good by doing good: The antecedents and consequences of stakeholder attention to corporate disaster relief. *Strategic Management Journal*, 36(5), 776-794. <https://doi.org/10.1002/smj.2246>
- Mardani, R. M. (2022). Dividend policy, ownership structure and corporate governance: An empirical analysis of Indonesian firms. *JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen*, 19(1), 60-76. doi:<https://doi.org/10.31106/jema.v19i1.11116>
- Matitaputty, J. S., & Davianti, A. (2020). Does broad gender diversity affect corporate social responsibility disclosures?. *JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen*, 17(1), 35-50. <https://doi.org/10.31106/jema.v17i1.3612>
- Melinda, A., & Wardhani, R. (2020). The effect of environmental, social, governance, and controversies on firms' value: Evidence from asia *Advanced issues in the economics of emerging markets* (Vol. 27, pp. 147-173): Emerald Publishing Limited. <https://doi.org/10.1108/S1571-038620200000027011>

- Mohammad, W. M. W., & Wasiuzzaman, S. (2021). Environmental, social and governance (esg) disclosure, competitive advantage and performance of firms in malaysia. *Cleaner Environmental Systems*, 2, 100015. <https://doi.org/10.1016/j.cesys.2021.100015>
- Mujiani, S., Juardi, J., & Fauziah, F. (2019). Determinan carbon emission disclosure pada perusahaan bumh yang terdaftar di bursa efek indonesia periode 2013-2017. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, 5(1), 53-64.
- Muzayin, M. H. T., & Trisnawati, R. (2022). Pengaruh struktur modal, ukuran perusahaan, umur perusahaan dan profitabilitas terhadap nilai perusahaan (studi empiris pada perusahaan sub sektor makanan dan minuman yang terdaftar di bursa efek indonesia (bei) tahun 2017-2019). *E-Prosiding Akuntansi*, 3(1).
- Noviarianti, K. (2020). Esg: Definisi, contoh, dan hubungannya dengan perusahaan. *Retrieved April, 22, 2021*.
- Nugroho, N. A., & Hersugondo, H. (2022). Analisis pengaruh environment, social, governance (esg) disclosure terhadap kinerja keuangan perusahaan. *E-Bisnis: Jurnal Ilmiah Ekonomi dan Bisnis*, 15(2), 233-243. <https://doi.org/10.51903/e-bisnis.v15i2.810>
- Nursetya, R. P., & Hidayati, L. N. (2020). How does firm size and capital structure affect firm value? *Journal of Management and Entrepreneurship Research*, 1(2), 67-76. <https://doi.org/10.34001/jmer.2020.12.01.2-7>
- Pratiwi, N. P. Y., Yudiatmaja, F., & Suwendra, I. W. (2016). Pengaruh struktur modal dan ukuran perusahaan terhadap nilai perusahaan. *Jurnal Manajemen Indonesia*, 4(1).
- Qodary, H. F., & Tambun, S. (2021). Pengaruh environmental, social, governance (esg) dan retention ratio terhadap return saham dengan nilai perusahaan sebagai variabel moderating. *Juremi: Jurnal Riset Ekonomi*, 1(2), 159-172. <https://doi.org/10.53625/juremi.v1i2.266>
- Serafeim, G. (2014). The consequences of mandatory corporate sustainability reporting, evidence from four countries: Retrieved from [https://accountancy.smu.edu.sg/sites/default/files ....](https://accountancy.smu.edu.sg/sites/default/files....)
- Setiadharna, S., & Machali, M. (2017). The effect of asset structure and firm size on firm value with capital structure as intervening variable. *Journal of Business & Financial Affairs*, 6(4), 1-5.

- Soetjanto, J. R., & Thamrin, H. (2020). Analysis of factors that effect firm value of consumer goods industry listed on indonesia stock exchange. *International Journal of Scientific and Research Publications (IJSRP)*, 10(05), 1-8.
- Sugiyono, D. (2013). Metode penelitian pendidikan pendekatan kuantitatif, kualitatif dan r&d.
- Sukarya, I. P., & Baskara, I. G. K. (2018). *Pengaruh profitabilitas, leverage, dan likuiditas terhadap nilai perusahaan sub sektor food and beverages*. Udayana University.
- Sulbahri, R. A. (2021). Pengaruh corporate social responsibility terhadap nilai perusahaan. *Akuntansi dan Manajemen*, 16(2), 215-226. <https://doi.org/10.30630/jam.v16i2.140>
- Toti, G. K., & Johan, S. (2022). The effect of enviromental, social, governance (esg) disclosure on company's profitability & value in the sri-kehati index 2015-2020. *Journal of Entrepreneurship, Management and Industry (JEMI)*, 5(2), 81-92. <http://dx.doi.org/10.25105/mrbm.v21i1.12949>
- Triyani, A., Setyahuni, S. W., & Kiryanto, K. (2020). The effect of environmental, social and governance (esg) disclosure on firm performance: The role of ceo tenure. *Jurnal Reviu Akuntansi dan Keuangan*, 10(2), 261-270. <https://doi.org/10.22219/jrak.v10i2.11820>
- Van Duuren, E., Plantinga, A., & Scholtens, B. (2016). Esg integration and the investment management process: Fundamental investing reinvented. *Journal of Business Ethics*, 138, 525-533. <https://doi.org/10.1007/s10551-015-2610-8>
- Vernando, J., & Erawati, T. (2020). Pengaruh ukuran perusahaan terhadap nilai perusahaan dengan struktur modal sebagai variabel intervening: Studi empiris di bei. *Jurnal Riset Manajemen Dan Bisnis*, 15(1), 13-25. <http://dx.doi.org/10.21460/jrmb.2020.151.344>
- Vilanova, M., Lozano, J. M., & Arenas, D. (2009). Exploring the nature of the relationship between csr and competitiveness. *Journal of Business Ethics*, 87, 57-69. <https://doi.org/10.1007/s10551-008-9812-2>
- Vitari, C., & Raguseo, E. (2020). Big data analytics business value and firm performance: Linking with environmental context. *International Journal of Production Research*, 58(18), 5456-5476. <https://doi.org/10.1080/00207543.2019.1660822>
- Wahyuningsih, R., Novianingsih, R., Sari, R. I., Putri, R. K., & Hanifah, U. (2022). *Stigma carbon emission disclosure terhadap nilai perusahaan pada perusahaan yang terdaftar*

di BEI. Paper presented at the Prosiding Seminar Nasional Hukum, Bisnis, Sains dan Teknologi.

- Wirawati, N. G. P., Dwija Putri, I., & Badera, I. D. N. (2020). Pengaruh ukuran perusahaan, leverage, pengungkapan lingkungan, dan kinerja lingkungan pada nilai perusahaan. *E-Jurnal Akuntansi*, 30(9), 2417. <https://doi.org/10.24843/EJA.2020.v30.i09.p19>
- Zaitul, S. A., & Hamdi, M. (2020). ESG disclosure dan nilai perusahaan. *Tata Kelola dan Akuntabilitas*, 167-169.
- Zuhrufiyah, D., & Anggraeni, D. Y. (2019). Pengungkapan emisi karbon dan nilai perusahaan (studi kasus pada perusahaan di kawasan asia tenggara). *Jurnal Manajemen Teknologi*, 18(2), 80-106. <https://doi.org/10.12695/jmt.2019.18.2.1>