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ESG AND ITS IMPACT ON COMPANY VALUES

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ABSTRACT : A good reputation can be a valuable asset in building long-term relationships with stakeholders and can be a key differentiator in an increasingly competitive market. Institutional investors are increasingly paying attention to ESG factors in their investment decisions. Many global financial institutions are now integrating ESG criteria into their risk analysis and investment prospects. Companies with high ESG scores tend to have easier access to capital and attract investment from sustainability-conscious investors. The implementation of ESG principles can encourage companies to develop innovative solutions that are more efficient and environmentally friendly. This condition will certainly affect company performance. Currently, ESG implementation is still not widely implemented by companies. The method used in this study is causality using linear regression analysis and the SPSS program with a sample of 14 companies listed on the IDX that have implemented ESG. The proposed hypothesis is whether ESG affects company performance. The results show that ESG does not affect company performance. Where the companies in the sample showed that the ESG indicators implemented by the company were on average below 50%.

KEYWORDS – *Environmental; Social; Governance; Company Values*.

I. INTRODUCTION

In recent years, the concept of Environmental, Social, and Governance (ESG) has become a hot topic in global business and investment circles. ESG is no longer considered a passing trend, but a key factor determining a company's long-term growth. This article explores why ESG is important for a company's long-term growth, and how implementing ESG principles can provide a sustainable competitive advantage. One key reason ESG is important is its ability to help companies identify and manage risks that may be overlooked in traditional analysis. For example, environmental risks such as climate change can disrupt supply chains and business operations. By having a robust ESG strategy, companies can mitigate these risks and increase their resilience to external disruptions. Companies committed to ESG practices tend to gain greater trust from stakeholders, including investors, customers, employees, and local communities. A strong reputation can be a valuable asset in building long-term relationships with stakeholders and can be a key differentiator in an increasingly competitive market. Institutional investors are increasingly considering ESG factors in their investment decisions. Many global financial institutions are now integrating ESG criteria into their risk analysis and investment outlooks. Companies with high ESG scores tend to have easier access to capital and attract investment from sustainability-conscious investors. The application of ESG principles can encourage companies to develop innovative solutions that are more efficient and environmentally friendly. For example, investing in renewable energy technology or better waste management practices can result in cost savings and create added value for the company in the long term.

One of the primary factors investors consider is company value. Corporate value is a crucial aspect because it reflects a company's overall performance, which can influence investor perceptions of the company (Mulyati et al., 2021). Investors' assessment of a company can be seen from its stock price movements. High stock prices reflect company performance, indicating increased company value in the eyes of investors (Stiadi, 2023). The Indonesia Stock Exchange (IDX) officially published the IDX ESG (Environmental, Social, Governance) Leaders index on December 14, 2022. This index consists of stocks of companies that implement ESG sustainability principles. The index measures the price performance of stocks that have good ratings in Environmental, Social, and Governance (ESG) aspects, are not involved in significant controversies, and reflect good financial performance. Based on stock price data obtained from the Indonesia Stock Exchange website, the share prices of companies indexed as ESG Leaders fluctuate. To increase their value, companies need to pay attention to non-financial performance, such as social responsibility and environmental awareness. ESG, which encompasses Environmental, Social, and Governance, is a crucial factor that can influence the share price of companies indexed as ESG Leaders. ESG involves sustainable practices and social responsibility, as well as assessing the management of risks associated with these practices, which can potentially impact a company's long-term performance (Dutta et al., 2020). ESG, an acronym for environmental, social, and governance, is an investment philosophy that considers a company's performance across all three aspects when making investment decisions (Jin & Lei, 2023). ESG is a framework for evaluating a company's non-financial performance and provides information on potential risks, which is crucial for a long-term investment strategy (Chang & Lee, 2022).

II. THEORY

Environmental Disclosure : Environmental disclosure is information that includes disclosures related to environmental aspects undertaken by a company as part of its sustainability efforts. This disclosure is typically included in a company's annual report. Through environmental disclosure in the annual report, stakeholders, particularly the public and shareholders, can monitor the company's activities. This has an impact on improving the company's image in the eyes of consumers (society), which in turn can increase the company's value. According to Henisz et al. (2019), elements of environmental disclosure include the company's energy use and waste generated from its resources, as well as their impact on living things, including carbon emissions and climate change. Environmental disclosure is becoming increasingly important as stakeholders' demand for environmental performance information increases. Environmental disclosure practices encompass a variety of information, such as environmental pollution and natural resource use. Disclosure of a company's environmental performance is one way to enhance a company's reputation and reflect corporate social responsibility in environmental management (Arimbi & Mayangsari, 2022). Environmental disclosure can be measured through the Environmental Disclosure Index (EnDI) using content analysis to evaluate whether annual reports in Indonesia have disclosed all items in accordance with the GRI G-4 standard. The GRI G-4 guidelines cover 34 key aspects related to environmental disclosure.

Social Disclosure : Social disclosure is information contained in a company's annual report. This information reflects the company's commitment and responsibility to its social environment (Christy, 2023). Social disclosure serves as a benchmark for investors and the public to assess the extent to which a company demonstrates its concern and commitment to the surrounding social environment. The presence of social disclosure within a company can expand its market share and increase its competitiveness. Companies need to be socially responsible, both internally and externally. This responsibility impacts the company's development by providing a safe workplace, skills training, welfare, and human rights protection. Outside the company, social responsibility can create harmonious relationships between the company and the community. Negative impacts caused by a company on the surrounding environment can lead to a loss of public trust. When public trust declines, companies need to disclose their social performance as a form of responsibility (Setiawan & Kurnia, 2024).

Governance Disclosure : Governance disclosure is information that includes disclosures related to the governance implemented by a company. The Global Reporting Initiative recommends the use of 15 items for governance disclosure in a company's annual report. The corporate governance framework should ensure that all material information affecting the company, including disclosures regarding its financial condition, performance, ownership, and governance, is conveyed in a timely and accurate manner. Governance disclosure can enhance company value, as good disclosure can reduce the risk of self-serving decisions by the board and create added value for all stakeholders (Sari, 2021).

III. RESEARCH METHODS

This type of research is causality using the population is a mining company. The analysis was carried out using linear regression analysis with the following equation:

$$Y = C + \beta X + \varepsilon$$

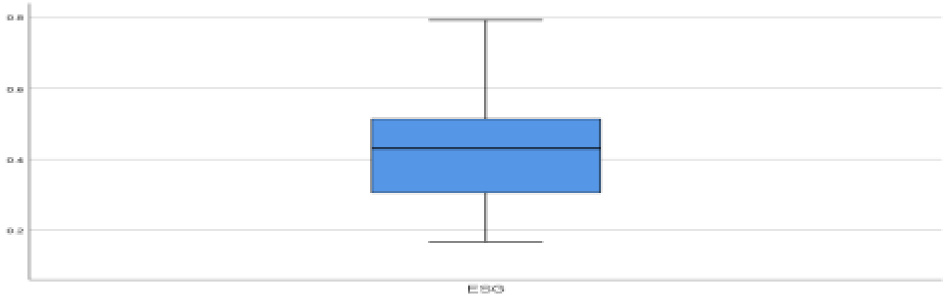
Furthermore, testing of the hypothesis that has been built is also carried out. The analysis process is carried out using the SPSS program. Before the linear regression analysis is carried out, a prerequisite test or classical assumption test is first carried out.

IV. RESULTS AND DISCUSSION

Classical Assumption Test Results

Normality Test

In this study, the researchers conducted a normality test to examine the data results for the Firm Value variable using a box plot. The box plot shows no outliers, indicating that the box plot results indicate normally distributed data for the Firm Value variable..



Gambar 1
Box Plot

In the Box Plot image, it can be seen that there are no outlier data. It can be concluded that the results of the box plot show normally distributed data on the ESG variable.

Multicollinearity Test :A multicollinearity test identifies a very strong or perfect relationship between independent variables in a regression model. This test is performed by analyzing the tolerance value and Variance Inflation Factor (VIF). Generally, multicollinearity is detected if the tolerance value is less than 0.1 or the VIF value exceeds 10..

Tabel 1
Multicollinearity Results

Model		Unstandardized Coefficients		Standardized Coefficients			Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	2.437	1.015		2.400	.020					
	ESG	-.803	2.211	-.049	-.363	.718	-.049	-.049	-.049	1.000	1.000

a. Dependent Variable: Nilai Perusahaan

Based on the results of the table above, this study shows that the independent variable, namely ESG, has a VIF value of 1,000 < 10. Therefore, the independent variable in the regression model of this study is stated not to experience symptoms of multicollinearity, which means that the assumption regarding multicollinearity has been fulfilled.

Heteroscedasticity Test : This analysis uses the Spearman's Rho correlation method, where if the coefficient's significance value is less than 0.05, it indicates heteroscedasticity. Conversely, if the coefficient's significance value is greater than 0.05, the model is considered not to have heteroscedasticity..

Tabel 2
Heteroscedasticity Results

			Nilai Perusahaan	ESG
Spearman's rho	Nilai Perusahaan	Correlation Coefficient	1.000	-.035
		Sig. (2-tailed)	.	.800
		N	56	56
	ESG	Correlation Coefficient	-.035	1.000
		Sig. (2-tailed)	.800	.
		N	56	56

Based on the table above, the significance value of the Company Value variable with ESG is 0.800, which is greater than 0.05. Thus, it can be concluded that there is no heteroscedasticity problem in this variable..

Linear Regression : The output results as can be seen in the following table 3 show an overview of the following results:

Tabel 3
Linear Regression

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.437	1.015		2.400	.020
	ESG	-.803	2.211	-.049	-.363	.718

a. Dependent Variable: Nilai Perusahaan

In the table above, a simple linear regression equation can be formulated as follows:

Y = a + bX

Company Values=2.437− 0.803 . ESG

1. The results of the multiple linear regression equation show that the constant value is 2.437, with a significance value > 0.05. This indicates a company value of 2.437..
2. The regression coefficient of the ESG variable is -0.803, with a significance value of 0.718 > 0.05. This means that for every 1 unit of ESG, the company's value will decrease by 0.803..

Determination test

ESG Determination Coefficient and Company Value Test Results

Tabel 5
Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.049[a]	.002	-.016	2.636547	.597

Based on the table above, the correlation value (R) was recorded at 0.049. From this value, a coefficient of determination (R Square) of 0.002 was obtained, which indicates that the ESG variable only has a 0.2% effect on company value..

Hypothesis Testing : The SPSS output results for the ESG Hypothesis Test and Company Value can be described in the following table:

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.918	1	.918	.132	.718[b]
	Residual	375.375	54	6.951		
	Total	376.292	55			

Based on the SPSS output, the sig value is 0.718, indicating that the sig value generated from the SPSS output is greater than 0.05, which means that ESG has no effect on the Company's performance. Research data shows that the average ESG indicator carried out by the Company is still around 50%, and the determination results show a very small value of 0.002 or less than 1%, while the factors that influence performance are 99%..

V. CONCLUSION

The results of this study indicate that ESG does not affect company value. This indicates that ESG does not independently impact company value, whereas other factors do. Furthermore, the research data shows that companies have not fully complied with all disclosures according to the established index. The companies sampled in this study still disclosed an average of 50% of the established index. It is recommended that companies in the future disclose indices related to environmental, social, and governance.

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