Economics World, Jan.-Mar. 2024, Vol.11, No.1, 35-41
doi: 10.17265/2328-7144/2024.01.004

Environmental, Social, Governance (ESG) Influence on Company Value Registered IDXESGL 2020-2022

Dwi Jayanti, Siti Kustinah, Vita Citra Mulyandini, Eddy Winarso, Adelia Nidyanti
Jenderal Achmad Yani University, Bandung, Indonesia

Global warming has increased people's awareness of environmental protection and social responsibility, which is also reflected in the way they invest, with environmental, social and corporate governance aspects starting to receive more attention. The purpose of this study is to investigate how environmental, social, and governance (ESG) performance, as measured by ESG risk assessment, affects corporate value. The population of this study consists of his 90 companies registered in his IDXESGL using a sampling method based on purposive sampling, and the total sample includes his 60 companies. The data analysis method used is a simple linear regression test. The findings of this study show that ESG risk assessment influences corporate value.

Keywords: environmental, social, governance, corporate value

Research Background

Modern society faces various environmental and social problems. Regarding the environment, global warming is the biggest problem we face today. Sustainable global warming can cause global climate change, which, among other things, is characterized by a longer dry season. Due to the impact of global warming, people are aware of the importance of environmental protection and social responsibility. The "zero waste" plastic bag diet movement is proof that people are increasingly socially responsible and aware of the importance of protecting the environment. This is one of the things that influences the way people invest. Usually investors pay more attention to the financial aspects of companies when investing, but now investors are also paying more attention to environmental, social and corporate governance aspects when making investment decisions (Qodary, & Tambun, 2021). Company value refers to investors' expectations of a company related to its share price. When share prices rise, company value also increases. Maximizing shareholder value and shareholder wealth is the company's main goal (Kombih, & Sugardianto, 2018).

Dwi Jayanti, SE., M.Si, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.
Siti Kustinah, Dr., SE., M.Si, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.
Vita Citra Mulyandini, S.ST., M.Ak, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.
Eddy Winarso, SE., M.Si., MBA., Ph.D., Ak., CA, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.
Adelia Nidyanti, SE., MS., Ak, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.
Correspondence concerning this article should be addressed to Eddy Winarso, Faculty of Economics and Business - Accounting Study Program, Jenderal Achmad Yani University, Bandung, Indonesia.

ESG (Environment, Social, Governance) is a concept that emphasizes sustainable development, investment and business activities through three main elements: environment, society and governance. Environmental examines how companies operate and their impact on the environment. Social includes how companies treat people, with a focus on human rights, employee relations and diversity, supply chain labor standards, and health and safety. Governance examines how a company is organized. ESG is a metric that includes various non-financial data regarding environmental, social and governance performance and can be used to assess a company's operational capabilities and support risk management (Tarmuji et al., 2016). Measuring ESG (Environmental, Social and Governance) performance using risk assessment techniques can be an effective approach to assessing the impacts and risks associated with sustainable business practices. Sustainably' ESG Risk Assessment measures whether a company is exposed to material industry-specific ESG risks and how well a company manages these risks. Risk assessments are categorized into five levels of risk: negligible, low, moderate, high, and severe. Sustainably' Environmental and Social Governance (ESG) Risk Score measures a company's exposure to ESG risks and how well it manages those risks. The lower a company's ESG risk score, the better the company is at managing its ESG risk (Prakoso, 2022).

Based on Exchange Announcement No. Peng-00363/BEI.POP/12-2020 On December 8 2020, the Indonesia Stock Exchange (BEI) designated IDX Environmental, Social and Governance Leaders (IDXESGL) which includes 30 blue chip stocks. has officially started. ESG performance. The reviews include CNBC Indonesia (2020). The value of a listed company can be determined by the high share price on the capital market. Share price is an indicator of the value of a company (Sunardi, & Permana, 2019). The higher the share price, the higher the company value (Franita, 2018). Below you will find data on enterprise value as measured by Tobin's Q and ESG risk as measured by ESG risk scores for several companies listed on IDXESGL:

Table 1

Company Value and ESG Risk for Several Companies Registered with IDXESGL

NO	ISSUER CODE	COMPANY NAME	YEAR	ESG Risk Rating	COMPANY VALUE
1.	BBCA	Bank Central Asia, Tbk	2020	26.08	0,979
2.	BBNI	Bank Negara Indonesia Tbk	2020	28.59	0,966
3.	BMRI	Bank Mandiri, Tbk	2021	29.71	0,959
4.	CTRA	Ciputra Development,Tbk	2021	27.03	0,966

Source: IDXESGL (processed, 2023, www.idxesgl.go.id).

Table 1 describes the condition of the company value and ESG risk rating of several companies listed on IDXESGL. If Tobin's Q-score is greater than 1, then the company is considered good. ESG risk ratings are assessed by Sustainability measuring agencies based on the following criteria: Negligible (0-10), Low (10-20). Medium (20-30), high (30-40), weight > 40. Several companies that are above average are in the moderate category or are classified as having moderate ESG risk, but their company value is low. Among them, PT BCA and PT BNI in 2020 had an ESG Risk of 26.08 and 28.59, but their company values were below 1, namely 0.979 and 0.966. Then PT. Bank Mandiri and PT Ciputra Development in 2021 have ESG Risk Ratings of 29.71 and 27.03, but their company scores are below 1, namely 0.959 and 0.966.

Literature Review

Stakeholder Theory

Stakeholders refer to groups or individuals who have the ability to influence or receive influence from achieving the goals of an organization. This theory states that organizations choose to voluntarily disclose information about their performance in environmental, social, and intellectual aspects, going beyond the requirements of existing legal obligations. This is done with the aim of meeting the actual expectations or expectations of stakeholders (Sri, 2015).

Stakeholder theory also assumes that the continued existence of a company is very dependent on support from stakeholders. So, in carrying out its activities, the company considers stakeholder approval and interests to ensure that the company's sustainability is maintained. In this case, disclosure about environmental, social and corporate governance issues has become a new concept that can be applied in various sectors, and can also be used by stakeholders to assess how the company carries out its activities in accordance with the expectations of various interested parties. interested (Putri, 2021).

Environmental, Social, Governance (ESG)

Environmental, social, and governance (ESG) is a philosophy that focuses on sustainable development, investment, and business practices along the three dimensions of ESG (Shaid, 2023). ESG covers all issues related to the environment (climate change), social responsibility (human rights), and corporate governance (shareholder protection) (Lagasio, & Cucari, 2019).

Topics covered in environmental standards include corporate energy consumption, waste disposal, pollution levels, efforts to conserve natural resources, and management of flora and fauna. These aspects describe the environmental impacts caused by a company's business activities.

In terms of social standards, discussions regarding the company's relationships with external parties such as the community, suppliers, community groups, buyers and other legal entities related to the company usually include the company's social impact on the environment and ethics.

Includes consideration of how business impacts society. Companies interact with various stakeholders. Governance standards, on the other hand, address how a company's internal controls function. This also includes the principles of good and sustainable governance which ensure that companies are managed efficiently, transparently and in accordance with applicable governance standards (Qodary, & Tambun, 2021).

ESG disclosure is a new approach in measuring and disclosing company information voluntarily, in general companies report corporate social responsibility (CSR) through separate annual reports, sustainability reports, and then continue with integrated reports (Putri, 2021).

The Value of the Company

According to Amelia, and Anhar (2019) Company Value is as follows:

"Company value is investors' perception of the company's level of success which is closely related to its share price. A high share price will also increase the company's value, and increase market confidence, not only in the company's current performance, but also in the company's prospects in the future."

Meanwhile, according to Noerirawan and Muid in Amelia, and Anhar (2019) states that the company value is as follows:

"Company value is the result of the company's performance, namely from the company's founding until now, as a reflection of the public's trust in the company. A high company value reflects that an organization has good opportunities, because the higher the level of company value, the higher the welfare of shareholders. This attracts investors to invest."

Research Methods

This research uses a quantitative approach that focuses on studying the relationship between variables and research objects. This method is causal, involves independent and dependent variables that are measured numerically, and applies statistical analysis to obtain analytical results. Before conducting a study, the researcher must decide which research method will be used. Quantitative methods were used in this research (Sugiyono, 2018).

The definition of quantitative method is a research method based on the philosophy of positivism, which involves the study of a certain population or sample and aims to describe and test certain hypotheses used to collect data. Involves the use of research tools. Data analysis is used to conduct quantitative/statistical research.

The population of this research includes all companies listed on the ESG Leaders Index of the Indonesia Stock Exchange for the 2020-2022 period, totaling 90 companies. Using the purposive sampling method, a sample of 39 companies was obtained. Because the dependent variable is influenced by one independent variable, simple regression analysis is used in this research, to determine the influence of the independent variable on the dependent variable, namely the ESG variable has an effect on company value.

Data processing uses SPSS Statistics software. To obtain more accurate and unbiased results, researchers also carried out tests using classical hypothesis testing.

Research Results and Discussion

ESG and Corporate Value

The following are the results of descriptive statistics for the ESG and Company Value variables:

Table 2

Results of Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
FV	39	13.4559136167377 40	.958747624817502	14.4146612415552 42	2.478619776943586	2.822133395840181
ESG	39	18.43	11.31	29.74	24.5887	5.20476
Valid N (listwise)	39					

Source: SPSS (processed, 2023).

Descriptive statistics of the ESG and Company Value variables, where the minimum ESG risk rating value is 11.31 and the maximum value is 29.74, while the average ESG risk rating value is 24.58 which is in the medium risk category. Meanwhile, the minimum value of company value is 0.958 and the maximum value is 14.41, while the average company value (Tobins Q) is 2.47 > 1, meaning the average company value is in good condition.

Normality Test Result

Table 3

Normality Test Result

N		39
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.91220101
Most Extreme Differences	Absolute	.134
	Positive	.103
	Negative	-.134
Test Statistic		.134
Asymp. Sig. (2-tailed)		.074[c]

Source: SPSS (processed, 2023).

Table 3 shows the data normality test using the Kolmogorov-Smirnov one sample test. The significance value is 0.074 > 0.05, which means the research data is normally distributed.

Table 4

Hypothesis Testing Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.661	.724		2.295	.027		
	ESG	-.068	.029	-.360	-2.345	.024	1.000	1.000

Source: SPSS (processed, 2023).

The t test basically shows how much influence the independent variable has in explaining the dependent variable. Table 4 shows the calculated t value of -2.345 for the ESG variable. This figure is less than 2.021 in the t table, and its significance is 0.024, which is less than 0.05. The coefficient value then shows a value of -0.068. It can be concluded that the hypothesis is accepted. This means that ESG variables have a negative influence on company value. The regression equation for this research is:

$$\text{Company Value} = 1.661 - 0.068\ \text{ESG} + \varepsilon$$

Coefficient of Determination Test

Table 5

Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.360[a]	.129	.106	.9244459	1.068

Source: SPSS (processed, 2023).

Table 5 depicts the results of the coefficient of determination test, where the adjusted R2 value is 0.106, which means that the ESG variable contributes 10.6% to the company value, while the remaining 89.4% is influenced by other factors not included in the regression model in this research.

Discussion of ESG and Company Value

From the results of hypothesis testing, it was found that ESG has a significant negative influence on company value. This is consistent with previous research showing that investors believe that companies with good ESG standards can reduce investment risk, making them more attractive to investors seeking profitable, risk-adjusted returns.

Overall, the ESG risk rating condition of the companies studied is in the medium risk category, then the average company value condition has a value above 1, which means it is in good condition. Investors in this case still respond positively to companies that have an ESG risk rating in the medium risk category.

However, the use of the ESG risk rating indicator results in the direction of the results of this research being negative, because a larger ESG risk rating value will result in the company having a high risk in its ESG management, so this will result in investors actually rating the company badly.

Conclusions

Based on the results of testing and analysis carried out using the ESG Risk Assessment Measurement Tool, ESG has a material negative impact on the value of companies registered with IDXESGL for the 2020-2022 period.

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