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The Effect Of ESG (Environmental, Social And Governance) Performance On Company Value And Company Performance

Pengaruh Kinerja ESG (Lingkungan, Sosial Dan Tata Kelola) Terhadap Nilai Perusahaan Dan Kinerja Perusahaan

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ABSTRACT
This study aims to prove that ESG performance has a positive and significant effect on firm value (Tobins'Q) and firm performance (ROA) in non-financial sector public companies on the Indonesia Stock Exchange in 2017-2021. Purposive sampling was used to select 34 companies as samples with a total of 170 observations during the five years of research. The method used is a quantitative approach with secondary data from the Refinitiv Eikon Database, and the regression analysis was performed using IBM SPSS version 21. The results show that companies that focus on ESG aspects tend to achieve better company value and company performance. ESG performance provides public legitimacy that increases trust, support and acceptance from various stakeholders, including investors, consumers, governments, communities and other groups. The research recommendation is for companies to integrate ESG aspects in business decisions and for investors to consider ESG aspects in investment decisions.
Keywords*: Environmental, Social and Governance (ESG); Company Performance (ROA); Company Value (Tobins'Q); Indonesia.*

ABSTRAK
Penelitian ini bertujuan untuk membuktikan bahwa kinerja ESG berpengaruh positif dan signifikan terhadap nilai perusahaan (Tobins'Q) dan kinerja perusahaan (ROA) pada perusahaan publik sektor non-keuangan di Bursa Efek Indonesia tahun 2017-2021. *Purposive sampling* digunakan untuk memilih 34 perusahaan sebagai sampel dengan total 170 observasi selama lima tahun penelitian. Metode yang digunakan adalah pendekatan kuantitatif dengan data sekunder dari Database Refinitiv Eikon, dan analisis regresi dilakukan menggunakan IBM SPSS versi 21. Hasil penelitian menunjukkan bahwa perusahaan yang berfokus pada aspek ESG cenderung mencapai nilai perusahaan dan kinerja perusahaan yang lebih baik. Kinerja ESG memberikan legitimasi publik yang meningkatkan kepercayaan, dukungan, dan penerimaan dari berbagai pemangku kepentingan, termasuk investor, konsumen, pemerintah, masyarakat, dan kelompok lainnya. Rekomendasi penelitian adalah agar perusahaan mengintegrasikan aspek ESG dalam keputusan bisnis dan agar investor mempertimbangkan aspek ESG dalam keputusan investasi.
Kata Kunci : Environmental, Social dan Governance (ESG); Kinerja Keuangan (ROA); Nilai Perusahaan (Tobins'Q); Indonesia.

1. Introduction

In recent decades, there has been an increase in interest in the presentation and inclusion of non-financial information in reporting companies; investors are no longer only interested in the financial aspects of the company, but also in the company's potential for value creation and sustainable development (Constantinescu et al., 2021). Non-financial firm performance is gaining attention as more and more investment experts recognize that profitability alone is insufficient for a company's long-term success. Sustainability reporting boosts organizational transparency, strengthens risk management, increases stakeholder involvement, and improves communication with stakeholders by going beyond economic, strategic, and operational issues to include environmental and social concerns (Loh et al., 2017).

Environmental, social, and governance considerations may all have an impact on a company's value, even while the whole globe is dealing with the COVID-19 epidemic, which has produced an unprecedented economic catastrophe. Nonetheless, the epidemic has raised awareness of the significance of applying environmental, social, and governance (ESG) principles, resulting in greater demand for sustainable investment (source: www.idxchannel.com). The Schroders Global Investors 2021 research looks at the actions and opinions of over 23,000 individuals who invest in 33 different countries across the globe. According to the findings, interest in sustainable investment funds has climbed by five percentage points year on year since 2020. Furthermore, interest in social and environmental concerns has grown. More than half of respondents (57%) believe that social and environmental concerns are substantially more important now than they were before the epidemic, while fewer than 10% believe they are less important now. In terms of the environment, respondents in Asia are more likely than those in America and Europe to believe that the problem is growing more pressing. This trend also holds true for societal issues.

Research related to how the impact of ESG on company performance has been carried out by several previous researchers. These studies include Bag & Mohanty (2021); Naeem & Ullah (2021); Nguyen et al., (2022); Rahman et al., (2023); Sari & Widiatmoko (2023) and Touati & Hult (2022). They found that the company's ESG performance can increase the company's performance as a proxy for ROA. Research on the effect of ESG performance on company value has been carried out such as Cho (2022); Naeem & Ullah (2021) and Touati & Hult (2022). They found that the company's ESG performance can increase the company's value which is proxied by the Tobins'Q value.

There are still differences in the results of previous studies regarding the impact of ESG aspects on company performance (ROA) and company value (Tobins'Q). Atan et al., (2018) show different findings that environmental, social and governance factors partially and simultaneously do not have a significant relationship between company profitability and company value (Tobin's Q). Junius et al., (2020); Pertiwi & Hersugondo (2023) and Srour (2022) found that a company's ESG performance has no significant effect on company performance as a proxy for ROA. Yoon et al., (2018) also found a negative relationship between disclosing ESG factors and company value. Kartika et al., (2023) and Safriani & Utomo (2020) found that ESG performance is not able to increase company value.

Based on the elaboration above, it can be seen that a form of disclosure made by an entity in the form of financial and non-financial disclosures is of course now an important indicator in assessing and evaluating company performance, whether these disclosures can affect the company's performance or not, and it can be seen that disclosure ESG performance information plays an important role in company values. ESG acts as a guide that demonstrates the company's image and sustainability in the eyes of the public and investors, as well as evaluating the company's quality. Investor reaction to the company's sustainability performance will influence its value. ESG performance therefore has an impact on company value. This is due to prior study mapping the gap phenomenon, which is also a management evaluation focusing on ESG concerns.

Literature Review and Hypothesis Development

This research is based on two theories, namely stakeholder theory and legitimacy theory. Stakeholder theory states that companies must get support from all parties related to their business activities, because this support is important for the continuity of the company (Gray et al., 1995). Researchers argue that the implementation of environmental, social, governance must be based on stakeholder theory, because company performance should contribute to meeting the needs of all stakeholders. Companies must consider the expectations and interests of stakeholders to support their business interests (Erin et al., 2022). Support and attention from stakeholders are expected to have a positive impact on company performance, such as through investment support or the use of company products by other stakeholders. Thus, the company can achieve profit targets, which in turn will affect the profitability ratio (Safriani & Utomo, 2020).

Second, legitimacy theory which explains that by implementing environmental, social, company governance aspects can increase and maintain the legitimacy of its business activities (Kilian & Hennigs, 2014). The company implements environmental, social, governance aspects with the motivation to gain legitimacy for the company's business activities (Faisal et al., 2012). In the perspective of legitimacy theory, environmental, social, governance aspects aim to legitimize company activities on the expectations of various stakeholders. It is hoped that this public legitimacy will increase the trust, support and acceptance of various stakeholders, including investors, consumers, governments, communities and other groups (Aydoğmuş et al., 2022; Giannopoulos et al., 2022).

H1	=	“ESG performance has a positive and significant effect on company value (Tobins'Q)”
H2	=	"ESG performance has a positive and significant effect on company performance (ROA)"

2. Research Methods

This type of research is associative research with a quantitative approach which aims to analyze whether there is an influence of ESG on company financial performance and company value. The population of this research object is all non-financial sector public companies listed on the Indonesia Stock Exchange (IDX) from 2017-2021 based on Refinitiv Eikon Database data. Purposive sampling was used to select samples according to the research criteria as shown in

Table 1. Purposive Sampling Criteria

Criteria	Amount
All non-financial sector public companies listed on the IDX for 2017-2021 based on Refinitiv Eikon Thomson Reuters data	703
minus :	
Companies that do not have an ESG score by Refinitiv Eikon Thomson Reuters in a row from 2017-2021	(669)
Number of samples	34
Final sample size for five years of study (34x5)	**170**

Source: Research Processed Data, (2023)

Table 1 shows that the sample in this study are public non-financial sector companies that have an ESG score from Refinitiv Eikon Thomson Reuters for 2017-2021 and have complete data on the variables used in this study. Based on the purposive sampling method, a total of 170 observations were obtained with details of 34 companies for the five years of research. Regression analysis in this study used IBM SPSS version 21 with two research models, namely:

Model 1		
This research model is used to answer hypothesis 1 (H1), which shows the effect of independent variables (ESG performance) and control variables (leverage and company size) on company value (Tobins'Q) as shown in equation 1.		
Tobins' $Q_{i,t}$	=	$\alpha + \beta 1\ ESGC_{i,t} + \beta 2 LEV_{i,t} + \beta 3\ SIZE_{i,t} + e_{i,tt}$ (1)

Model 2		
This research model is used to answer hypothesis 2 (H2), which shows the effect of independent variables (ESG performance) and control variables (leverage and company size) on company performance (ROA) as shown in equation 2.		
$ROA_{i,t}$	=	$\alpha + \beta_1 ESGC_{i,t} + \beta_2 LEV_{i,t} + \beta_3 SIZE_{i,t} + e_{i,t}$ (2)

Information :

α	: Constant
β	: Regression coefficient
ROA	: Return On Assets
Tobins Q	: Company Value
ESGC	: ESG Performance (ESG Combined Score)
LEV	: Leverage
SIZE	: Company Size
e	: Error

Operationalization of Research Variables

Dependent Variables:

Company Value (Y1)

Measurement in assessing the company using Tobin's q. Because Tobin's q is believed to be able to provide an overview not only on fundamental aspects, but also market assessment of the company. Therefore in this study the proxy used in assessing companies is Tobin's q, calculated by the formula (Melinda & Wardhani, 2020).

Tobins Q=(Market Value of Equity+Total Liabilities)/(Book Value of Assets)

Company Performance (Y2)

Return on assets (ROA) may be used to calculate financial performance (Matar & Eneizan, 2018). Return on Assets (ROA) is a popular tool for calculating a company's earnings (Masood & Ashraf, 2012). The following formula is used to compute Return on Assets (Buallay et al., 2020):

Return on Assets=(Net Profit)/(Total Assets)

Independent Variables :

ESG Performance (X1)

The ESG variable is measured by the ESG combination score (ESGC) issued by Refinitiv Eikon Thomson Reuters. The ESGC score provides a thorough and comprehensive assessment of a company's ESG performance. The assessment is based on reported information related to the ESG pillar, with an overlay of the ESG controversy drawn from global media sources.

Control Variables :

Company Size (C1)

Company size controls how much power the available resources can help companies produce good financial performance (Yoon & Chung, 2018). Companies with a large scale tend to attract investors because it will have an impact on the value of the company later, so it can be said that the size of the company affects the value of the company. Company size is formulated as follows:

Size = Ln (market market capitalization)

Leverage (C2)

Financial leverage refers to how companies utilize borrowed funds to generate expected shareholder returns (Brealey et al., 2020). Leverage is measured by the following formula:
Leverage = (Total debt)/(Total assets)

3. Results and Discussion

After the classical assumption test is fulfilled, then the next stage is regression analysis to answer the hypothesis that was previously proposed. The results of the regression test for the two research models are shown in table 2.

Table 2. Regression Test Results

Variables	Model 1 (Tobins'Q)	Model 2 (ROA)
Constant	17,470**	0.746**
	0	0
ESGC	0.020**	0.001**
	(26)	(7)
size	-0.662**	-0.027**
	(1)	(1)
leverage	-1,831*	-0.118**
	(63)	(2)
*,** respectively significant at α 10%, 5%		

Source : SPSS Output 21, 2023

Effect of ESG Performance on Company Value (Tobins'Q)

The results of the partial test on model 1 show that ESG performance has a positive and significant effect on company value proxied by Tobins'Q (coefficient 0.020 and sig < 5%). This study reveals that the better the company's ESG performance, the better the company's value. Previous research that also supports this finding is like research from Cho (2022); Yu & Xiao (2022); Aydoğmuş et al., (2022) Naeem & Ullah (2021) and Touati & Hult (2022) and Melinda & Wardhani (2020). They found that the company's ESG performance can increase the company's value which is proxied by the Tobins'Q value.

From the perspective of stakeholder theory, the positive and significant impact of ESG performance on company value can be explained that companies that prioritize the interests of all stakeholders are more likely to build trust and improve their reputation among stakeholders (Sarnisa et al., 2022; Safriani & Utomo, 2020b). In addition, ESG performance can improve the legitimacy process and reduce reputational risk for companies, which can also contribute to increasing company value (Yu & Xiao, 2022; Zheng et al., 2022). Companies that engage in ESG practices and disclose their ESG performance are seen as more transparent and accountable, which can enhance their reputation and build trust among stakeholders (Aydoğmuş et al., 2022; Giannopoulos et al., 2022).

Effect of ESG Performance on Company Performance (ROA)

The results of the partial test on model 2 show that ESG performance has a positive and significant effect on company performance proxied by ROA (coefficient 0.001 and sig <5%). This study reveals that the better the company's ESG performance, the better the company's performance proxied by ROA. This finding is in line with research from Bag & Mohanty (2021); Naeem & Ullah (2021); Nguyen et al., (2022); Rahman et al., (2023); Sari & Widiatmoko (2023) and Touati & Hult (2022). They found that the company's ESG performance can increase the company's performance as a proxy for ROA.

This finding is in line with stakeholder theory, suggesting that a company's ESG performance can have a positive impact on company reputation, customer loyalty, employee satisfaction, and risk management which can ultimately improve the company's financial performance (Ningwati et al., 2022). Therefore, companies that prioritize ESG performance tend to have better relationships with their stakeholders, which can improve the company's financial performance. In line with legitimacy theory, that companies that focus on environmental, social, and governance aspects tend to achieve better financial performance and company value. This is because the company gains public legitimacy which can increase trust, support and acceptance from various stakeholders, including investors, consumers, government, community and other groups (Korwatanasakul, 2020).

Effect of Control Variables

size

The partial test results on model 1 reveal that the control variable firm size has a negative and substantial influence on company value as measured by Tobins'Q. According to this research, the bigger the firm, the lower the value of the company as proxied by Tobins'Q, and vice versa. This observation is consistent with the findings of Aydomuş et al., (2022) and Hirdinis (2019). Based on these data, it is possible to infer that the size of a firm has a negative and substantial influence on its value as evaluated by Tobins'Q.

The partial test results on model 2 reveal that the control variable firm size has a negative and substantial influence on company performance as measured by ROA. According to this research, the bigger the firm, the poorer the company's performance as measured by ROA, and vice versa. This conclusion is consistent with the findings of Yadav et al., (2022); Goh et al., (2022); and Ibhagui & Olokoyo (2018). Based on these data, it is possible to infer that the size of a firm has a negative and substantial influence on its success as evaluated by ROA.

leverage

The results of the partial test on model 1 show that the leverage control variable has a negative and significant effect on company value proxied by Tobins'Q. This study reveals that the higher the leverage of the company, the lower the value of the company proxied by Tobins'Q and vice versa. This finding is in line with research from Aydoğmuş et al., (2022); Abraham (2020); Yuwono & Aurelia (2021). Based on these findings it can be concluded that leverage has a negative and significant effect on company value as measured by Tobins'Q. This suggests that higher levels of leverage are seen as riskier by investors, which can lead to lower valuations and reduce company value.

The results of the partial test on model 2 show that the leverage control variable has a negative and significant effect on company performance proxied by ROA. This study reveals that the higher the company's leverage, the lower the company's performance proxied by ROA and vice versa. This finding is in line with research from Aydoğmuş et al., (2022); Iqbal & Usman (2018); Javed et al., (2015). Based on these findings it can be concluded that leverage has a negative and significant effect on company performance as measured by ROA. This shows that a higher level of leverage can lead to lower profitability and financial performance for the company.

4. Conclusion

The conclusion from the results of this study shows that ESG performance has a positive and significant effect on company value proxied by Tobins'Q (Model 1) and company performance proxied by ROA (Model 2). This a reveals that the better the company's ESG performance, the better the company's value and company's performance. There are several limitations in this study, which are as follows: (1) There are still a few companies that have an ESG score from Refinitiv Eikon Thomson Reuters which has an impact on the limited number of samples and research observations, (2) This study does not fully consider the influence of external factors such as market conditions, regulatory changes, or government policies that could affect the relationship between ESG performance and company value.

The implication of this research is that companies must prioritize business practices that are sustainable and responsible for their impact on the environment, society and other stakeholders. Efforts to reduce negative impacts and improve performance on ESG aspects will help companies achieve better value and financial performance. These findings also support efforts for investors to integrate consideration of ESG aspects in investment analysis. Investors and other stakeholders can increasingly recognize the importance of ESG factors in evaluating company performance and value.

Suggestions for further research are to analyze the moderating or mediating variables that affect the relationship between ESG performance and company value and conduct comparative studies of certain industries or sectors. Investors are expected to provide a positive assessment of the company's efforts on the ESG aspect by considering the ESG factor in investment analysis. Then for companies to integrate ESG practices in business strategy and make ESG performance transparency in the company's annual report. Finally, it is recommended for regulators to contain policies to standardize ESG aspects internationally and make efforts to increase public awareness of the importance of ESG aspects in life (ESG Literacy).

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