American International Journal of Business Management (AIJBM)
ISSN- 2379-106X, www.aijbm.com Volume 5, Issue 12 (December-2022), PP 85-102

THE EFFECT OF ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE DISCLOSURE ON FIRM VALUES:EMPIRICAL EVIDENCE OF NON-FINANCIAL COMPANIESON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT: *This study aims to investigate the effect of Environmental, Social and Governance disclosure on firm valuesusing control variables such as firm size, financial leverage, firm age, sales growth and loss. This study used Tobin's Q as a proxy of the firmvalue, and the Global Reporting Initiatives (GRI) of the Sustainability Report (SR) of Indonesian public companies to measure Environmental, Social and Governance (ESG) disclosure. The population in this study are non-financial companies listed on the Indonesia Stock Exchange in 2016-2021. Sampling was done by purposive sampling. Based on the purposive sampling method, samples were obtained for the six years obtained (2016-2021). The method used to analyze the effect of independent variables on the dependent in this study was the panel data regression analysis using Eviews 12 software. The results of this study indicate that environmental disclosure has a negative effect on firm value. While social disclosure has positive effect on it. On the other hand, corporate discolure has no effect on it.*

Keywords: *Environmental Disclosure, Social Disclosure,Corporate Governance Disclosure, Tobin's Q GRI*

I. INTRODUCTION

The company is currently no longer focused on company value in terms of its economic condition, but has shifted to a focus on long-term sustainability (Daniri, 2008;Felisia & Limijaya, 2014). In the concept of sustainability, the business world is not merely faced with responsibilities that are based on a single bottom line, this is due the financial condition itself is not enough to guarantee the company's value to grow sustainably.

Currently, business continuity has developed and focuses on 'sustainability' issues related to environment, social and governance (ESG[1]) and has become an initiative that can generate high quality and sustainable revenue growth and corporate financial performance. The United Nations (UN) Sustainable Stock Exchange (SSE) explained that all large companies are expected to disclose the impact of environmental and social practices no later than 2030 in their sustainability reporting. So this has led to the emergence of a new trend among investors that in measuring company performance, the ESG disclosure factor must be considered.

Most of the empirical evidence proves that a "good" issuer will have a high ESG disclosure value. ESG performance is directly proportional to the level of return on investment and the company's profitability ratio(Behl et al., 2022;Aboud & Diab, 2018). Environmental performance assessment of a company will have a significant positive effect on company value(Eccles et al., 2014). ESG/SRI (Sustainable and Responsible Investment) labeled companies are more able to obtain a higher rate of return on investment and continue to grow from time to time in a sustainable manner(Semenova & Hassel, 2013).

In the Business Dialogue Group 20 (B20), Indonesia also supports global sustainability reporting standards as part of strengthening sustainable governance. This can be seen from the issuance of the Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. The consequence of the issuance of this regulation for companies, especially those listed on the IDX, is that they are required to issue a sustainability report which includes disclosure of environmental, social and corporate governance activities. POJK Number 51/POJK.03/2017 also provides evidence that the need for an international standard sustainability report is able to help business people to maintain the continuity of their business investments.

Melinda & Wardhani (2020)argues that companies with better ESG performance scores will have higher firm values compared to companies with lower ESG performance scores. Investors realize that it is not impossible for companies that ignore attention to ESG to have a negative impact on company performance and value(Yu et al., 2018). If related to company investment, then a higher company value, as represented by a high

[1]Furthermore, researchers will use the terms ESG or environmental, social, and governance (ESG) interchangeably in this paper.

Tobin's Q ratio, can provide a company with greater investment opportunities. Companies with ESG disclosure scores have wider investment opportunities, which will ultimately have a higher corporate value(Irawan & Okimoto, 2021;De Lucia et al., 2020;Almeyda & Darmansya 2019).

Sustainable investment has now become an international investment trend. Data obtained from the Global Sustainable Investment Review, shows an increase in total sustainable investment managed funds which increased by 55% in the 2016-2020 period to US$ 35.3 trillion. PT. BNP Paribas Asset Management assesses that the trend of sustainable investment that applies ESG principles in Indonesia will continue to increase and be increasingly relevant to current conditions(Almawadi. Issa, 2022). This is in line with the government's focus both on addressing climate change issues and on pushing the financial services sector towards sustainable and inclusive growth.

To assess the performance of the company's sustainability commitments, stakeholders use the ESG measurement based on the disclosures in the sustainability report. Reports on corporate sustainability received a positive response globally to the point that the Global Reporting Initiative (GRI) was initiated which became the basis or reference for preparing sustainability reports. Sustainability report is a report that contains the company's performance and contribution to economic, social, environmental sustainability and corporate governance. In this report, the company is expected to not only explain what the company has done in preserving the environment, treating waste, or how to empower the communities around its operational locations, but can also make a company commitment going forward regarding what the company wants to do to improve environmental sustainability or contribute more positively and significantly to the economy, social and environment (Wijaya, 2021).

Given the importance of ESG, many recent studies have explored the impact of ESG on company performance however they have drawn different research conclusions. Research result by Yu et. al. (2018)of companies listed on the FTSE 350, found a positive relationship between the level of environmental, social and governance disclosure and corporate value, where increased transparency and accountability as well as increased stakeholder trust play a role in increasing corporate value. Higher CEO power also increases the effect of ESG disclosure on firm value, with greater commitment to ESG practices.Almeyda & Darmansya (2019)conducted research to evaluate the effect of environmental, social and governance disclosures on financial performance and stock prices in real estate companies in G7 countries (Canada, France, Germany, Italy, Japan, United Kingdom, and United States of America) with a total of 380 observations. Environmental, social and governance disclosure scores were obtained from the Bloomberg ESG data index for a five-year period (2014-2018). The results of the study show that there is a significant positive relationship between environmental, social and governance disclosures with ROA and ROC of companies, but there is no significant relationship with stock prices.

Much literature has explored the relationship between environmental, social and governance performance and firm value. However, the results are still equivocal, partly due to measurement issues or data constraints, and partly due to model specification errors(Y. Li et al., 2018). First study,Blacconiere & Patten (1994)examines the relationship between disclosure of environmental, social and governance information and corporate value by focusing on specific environmental, social, and ethical events, where investors react less/negatively to companies with more disclosed environmental information than those with less information during an industrial disaster happening in the chemical industry. Study of Erkanawati (2018)in 16 mining companies listed on the IDX for the period 2011-2015 found that environmental and social disclosures taken from the company's sustainability report had an insignificant effect on company value proxied by Economic Value Added (EVA). This is because all EVAs are negative. Since 2011 mining companies have experienced heavy pressure. This condition is the impact of the sluggish global economy which can be caused by falling crude oil prices, minimal demand for coal commodities followed by falling coal prices, large tax costs borne by companies, large company operating costs, licensing fees, and other costs caused by "No Service but Must Pay", which resulted in decreased company profits.

This research is important since (1) currently the need for disclosure of sustainability information is crucial. Investors and other stakeholders are starting to realize that disclosure of environmental, social and governance (ESG) performance is an indicator of company strength which will ultimately increase corporate value and the prosperity of stakeholder(Ramic, 2019). This is also supported by the increasing interest of stakeholders in database providers (among others; World Bank Group, Refinitiv, ESG Intelligence), financial information providers (such as; Bloomberg and Nasdaq), rating agencies (such as; MSCI, FTSE Russell, and Thomson Reuters ASSET4®), and increasing corporate interest in environmental, social, and governance (ESG) issues. Environmental issues such as the greenhouse effect, gas emissions, hazardous waste, environmental fines, and others. The issue of social disclosure includes more comprehensive matters such as; percentage of employee turnover, gender diversity in the organization, occupational health and safety benefits, and others. Meanwhile, governance issues related to diversity within the board, reporting disclosure practices, corporate code of ethics and so on. (2) studies in the ESG area are still limited and still provide mixed findings. Studies that investigate the relationship between ESG disclosure and corporate value tend to be conducted in developed countries, and one-tier system governance structures. In fact, issues related to environment, social and governance are not only found in developed countries, but also occur in all countries with different governance structures, cultures and socio-economic systems.

This research focuses on the transparency of disclosure of ESG of public companies, especially non-financial companies listed on the IDX for the 2016-2021 period. The ESG disclosure quantity used in this study was obtained from the company's sustainability report. This sustainability report was prepared with a reference or basis, namely the Global Reporting Initiative (GRI). GRI is a non-profit organization that promotes economic sustainability. GRI produces standards that are commonly used by companies in the world for sustainability reporting, one of which is the ESG. The ESG disclosure index used in this study refers to the GRI G4 and the 2016 GRI Standards.

This study includes a number of control variables into the analysis to control for other factors that are thought to influence the dependent variable, and to avoid misspecification of the empirical model used in the study and to avoid biased calculation results. The control variables in question are firm size, leverage, firm age, growth sales, negative profits (loss).

II. LITERATURE REVIEW AND HYPOTHESES FORMULATION

Legitimacy Theory

Legitimacy theory was coined byDowling & Pfeffer (1975)namely focusing on the interaction between the company and the community. This theory assumes that society is an important factor in the development of companies in the long term.Suchman (1995) explains that legitimacy is a broad view or assumption that the actions taken by an entity are actions that are desirable, appropriate or in accordance with a socially developed system of norms, values, beliefs and definitions which is developed socially.

According to legitimacy theory, the actions of an institution must have activities and performance that can be accepted by society. Legitimacy can be obtained when there is compatibility between the existence of a company that does not interfere or is congruent with the existence of a value system that exists in society and the environment (Deegan et al., 2002). When there is a shift towards incompatibility, then at that time the legitimacy of the company can be threatened. The rationale for this theory is that organizations or companies will continue to exist if people realize that organizations operate for a value system that is commensurate with the value system of society itself. The alignment of community values can be seen from the company's concern about Environmental, Social, and Governance (ESG). ESG can be communicated by companies to stakeholders through ESG disclosure(Roestanto et al., 2022).

Companies use their annual reports to portray the impression of environmental responsibility, so that they are accepted by society. Social and environmental reports can be considered as the most commonly accepted means of communication. This report provides an opportunity for companies to disclose good company achievements without incurring significant costs and is also a good opportunity for companies to design a positive image with their stakeholders(Mousa, et. al., 2015). With the acceptance from the community, it is hoped that it can increase the value of the company so that it can increase company profits. This can encourage or assist investors in making investment decisions.

Signaling Theory

*Signaling Theory*first proposed bySpence (1973)in the signal balance model (basic equilibrium signaling model) which provides an illustration of the job market and suggests that companies that have good performance (superior performance) use financial information to send signals to the market. This theory further explains that the cost of signaling on bad news is higher than good news and companies that have bad news send signals that are not credible. This motivates managers to disclose private information to reduce information asymmetry in the hope of sending good signals about company performance to the market.

Then signal theory was developed byRoss (1977)which states that company executives have better information about the company will be encouraged to convey this information to potential investors so that the company's stock price increases. Based on signalling theory, if a company gives a positive signal in the form of information related to environmental and social activities it is hoped that it can not only reduce information asymmetry between management and stakeholders but can also increase stakeholders' trust in the company so that it can not only improve corporate image but also increase public interest in investing(Anjani & Astika, 2018;Bergh et al., 2014).

Signal theory emphasizes that through the presentation of complete information in reports can increase the value of the company, which in turn will attract investors. If the company fails to present more information, then the stakeholders will merely assess the company as an average company with companies that do not disclose additional reports(Rankin et al., 2018).

Stakeholder Theory

The term stakeholder was first introduced in 1963 by the Stanford Research Institute and is defined as a group that can provide support for the existence of an organization(Harmony, 2013). Stakeholders are groups or individuals who can influence or be affected by the process of achieving the goals of an organization(Freeman & McVea, 2001).Stakeholders does not only focus on shareholders and investors, but extends to all other stakeholders(Donaldson & Preston, 1995). Activities carried out by the company affect many parties (stakeholders), so that company management is expected to carry out activities in accordance with what is expected of stakeholders and report them to stakeholders(Guthrie et al., 2004).

Disclosure of company information is important to maintain relationships and improve the company's reputation with stakeholders. It is hoped that the support and attention provided by these stakeholders will be able to have a positive effect on company performance, namely through investment support or capital participation that can improve company operations as well as through support for the use of company products by other stakeholders. So that the company will be able to achieve profit targets.

The value of the company

In carrying out its business, the company's value is one of the things that needs to be considered by the company's management because the company's value can describe the company's success as assessed by the company's stock price. Company value summarizes investors' collective assessment of how well a company is doing, both its current performance and future projections(Setiawati & Lim, 2018). Firm value is also the perception of investors towards the company which is often associated with stock prices, where it is an indicator of the company's success.

There are many financial ratios that investors can use to find out the market value of a company. This ratio can provide an indication for management regarding investors' assessment of the company's performance in the past and its prospects in the future. According toCopeland et al., (2014), measurement of company value consists of:

***Price Earning Ratio*(PER)**

Price Earning Ratio(PER) is the ratio between the company's stock price and earnings per share in shares. PER is a function of changes in expected earnings ability in the future. The greater the PER, the greater the possibility for the company to grow so that it can increase the value of the company. PER can be calculated by the formula:

$$\text{PER} = \frac{Marketpricepershare}{Earningspershare}$$

***Price to Book Value*(PBV)**

Price to Book Value(PBV) describes how much the market appreciates the book value of a company's shares. The higher this ratio, the higher the trust of the the market in the company's prospects. PBV also shows how far a company is able to create company value relative to the amount of capital invested PBV can be calculated by the formula:

$$\text{PBV} = \frac{Marketpricepershare}{Bookvaluepershare}$$

Tobin's Q

Firm value can also be measured by the Tobin's Q ratio. Tobin's Q was discovered by James Tobin in 1967. This ratio is considered to provide the best information, because this ratio can explain various phenomena in company activities, such as cross-sectional differences in decision making offirm value investment, management performance, and achieving diversification gains (Claessens et al., 2002). The greater the value of Tobin's Q indicates that the company has good growth prospects. This can happen because the greater the market value of the company's assets compared to the book value of the company's assets, the greater the sacrifice of investors.

In this study, researchers used Tobin's Q ratio calculations to determine firm value. Tobin's Q is calculated by comparing the ratio of the market value of the company's stock to the book value of the company's equity. Conceptually, the Tobin's Q ratio is superior to the market value to book value ratio because it focuses on how much a company is currently worth relative to what it is currently costing to replace it (Margaretha, 2014; Muchtar, 2021). Tobin's Q formula is as follows:

$$\text{Tobin's Q} = \frac{(EMV + D)}{(EBV + D)}$$

Information:

q	:	the value of the company
EMV	:	*Equity market values*is the market value of the equity (Closing price x

number of outstanding shares)
D : book value of total debt
EBV : *Equity book value*is the book value of equity (total assets – total debt)

Environmental Disclosure

The word disclosure means not covering or not hiding(Ghozali & Chariri, 2014). When associated with disclosing information, disclosure implies that disclosing such information must provide sufficient explanation and be able to represent the actual situation in the company. Thus, the information must be complete, clear, accurate, and reliable by portraying the conditions currently being experienced by the company, both financial and non-financial information, so that no party will be harmed.

Darrough (1993) suggests that there are two types of disclosure in relation to standard requirements, namely: Mandatory Disclosure and Voluntary Disclosure. One example of voluntary disclosure is environmental disclosure. Environmental disclosure is environmental information disclosed by management in various reporting media such as annual reports, sustainability reports and so on, which will be used for decision making by users of the information(Agca & Onder, 2007).

Basically environmental disclosure can be seen as a company's effort to send messages to stakeholders about the actions taken by companies for social and environmental interests(Ghozali & Chariri, 2014). Information contained in environmental disclosures, such as discussions of regulations and environmental impact requirements, environmental policies or company concern for the environment, conservation of natural resources, appreciation for concern for the environment, recycling efforts, expenses made by companies related to environmental management, legal aspects on cases related to environmental impacts caused by companies (Wiseman, 1982 in Ghozali and Chairiri 2014).

At this time, companies are required to be able to disclose performance related to environment, social and governance in sustainability reports that use the Global Reporting Initiative (GRI) guidelines as indicators for disclosure. There are 32 disclosures related to environmental aspects in the GRI Standards index consisting of 8 main aspects. Where the eight aspects are material, energy, water and effluent, biodiversity, emissions, wastewater and waste, environmental compliance and environmental assessment of suppliers.

Social Disclosure

The definition of social disclosure (Ghozali&Chariri, 2014) is a process used by companies to disclose information related to company activities and their impact on the social conditions of society. Social disclosure is often referred to as disclosure of corporate social responsibility, social reporting which is the process of communicating the social and environmental impacts of an organization's economic activities on specific interest groups and on society as a whole(David & Milne, Markus, 1996). The purpose of corporate social disclosure is to show the public the social activities carried out by the company and its impact on society. The word impact here refers to the extent to which the environment, employees, consumers, local communities and others are affected by business operations and activities(Monks & Minow, 2004).

There are various reasons or motivations that managers have for voluntarily disclosing social information, including: the desire to comply with statutory requirements, considerations of economic rationality, confidence in the accountability process for reporting, the desire to fulfill lending requirements, to fulfill societal expectations, as a consequence of threats to corporate legitimacy, to manage a powerful stakeholder group, to attract investment funds, to comply with certain industry requirements or codes of conduct and finally to win certain reporting awards(Deegan et al., 2002; Ghozali&Chariri, 2014).

In the GRI Standards, it is stated that social topics are topics related to the impact that an organization has on the social system in which the organization operates. The social category includes business relations with employees (labor relations management, occupational health and safety, training and education, non-discrimination, human rights and freedom of association), business relations with surrounding communities (e.g., indigenous peoples' rights, communities) also includes customer relations.

Corporate Governance Disclosure

Forum for Corporate Governance in Indonesia (FCGI, 2011), defines Corporate Governance as a set of rules that determine the relationship between shareholders, management, creditors, the government, employees and other internal and external stakeholders with respect to rights and obligations. The purpose of corporate governance is to create added value for all interested parties.

*Corporate governance disclosures*as an instrument used to disclose corporate governance information. Disclosure of corporate governance includes the board of directors, ownership structure and other information related to corporate governance. Corporate Governance Disclosure aims to manage risk in meeting corporate goals. This relates to how investors believe that the company can provide benefits.

Disclosure of governance in the annual report contains disclosure of information that can assist stakeholders in making decisions. The information disclosed is not only in the form of financial information, but also non-financial reports. Apart from being used as a basis for decision making, disclosure in the annual report is also used as a form of management responsibility and accountability for the performance of managing the company to investors as owners (Warsono et al. 2009).

GRI 102 is the Universal Standard Series 100 on General Disclosures, used to report contextual information about an organization and its sustainability reporting practices. It contains information on profiles, information on strategies, ethics and integrity, governance, stakeholder engagement practices and the organization's reporting process. More specifically, governance disclosures can be seen in GRI 102-18 to GRI 102-34.

III. Review of Previous Research

Previous research can be used as a reference in comparing current research with previous research so that it will produce an analysis that is in accordance with the theory. Study of Giannopoulos et al., (2022)examines the relationship of ESG to financial performance through ROA and Tobin's Q on Norwegian listed companies from 2010-2019. ESG was measured using the Thomson Reuters Eikon ESG disclosure score. The results show that ESG disclosure has a negative impact on ROA but Tobin's Q is positively influenced by increased investment in ESG disclosure. Research result by Thahira & Mita (2021)who use the company's annual report show that ESG disclosure has a positive relationship with company value, because disclosure of ESG information provides benefits to companies and helps investors make better decisions and increases investor confidence in the company.

Study by Velte (2017), which was taken from 412 company-year observations covering the 2010-2014 business year found that ESG performance in total and the three components, environmental, social, and governance performance scores separately, had a positive impact on accounting-based FINP (ROA). Further analysis shows that governance performance has the strongest impact on FINP compared to environmental and social aspects. This is due to Germany's longer corporate governance reporting tradition and the increased relevance of value to stakeholders.

Research result of Yu et al., (2018)of companies listed on the FTSE 350, found a positive relationship between the level of ESG disclosure and corporate value, where increased transparency and accountability as well as increased stakeholder trust play a role in increasing corporate value. Higher CEO power also increases the effect of ESG disclosure on firm value, with greater commitment to ESG practices.

IV. Framework and Hypothesis Development

The Effect of Environmental Disclosure on Company Value

Environmental disclosure includes information on resource use, emissions, energy and company innovation. Disclosure of the company's environment will be a tool for investors to consider in making investment decisions, which can have an impact on increasing share prices. Companies with high quality environmental disclosures, which are carried out by providing relevant information, will have a positive influence on stock price valuations(Iatridis, 2013).

Signal theory underlies environmental disclosures made by companies. Based on signal theory, companies provide information that will then be used by investors as an assessment and basis for their decisions. Companies that convey information about their good performance will give a positive signal to investors which will then increase the company's stock price(Nur Utomo et al., 2020). The higher the stock price, the higher the value of the company in the eyes of shareholders or potential investors(Masruroh & Makaryanawati, 2020). Previous research conducted by Melinda & Wardhani (2020)shows that there is a positive and significant relationship between the company's ESG performance as measured using the ESG environmental dimension to company value.

Some of the findings of recent research in developing countries investigating the relationship between firm performance and cash flows are negatively affected by ESG performance(Garcia & Orsato, 2020). This is due to the lack of capital in developing countries and the need to prioritize investment. Another relevant study conducted during the COVID-19 pandemic found that ESG was negatively related to financial returns due to the pandemic(Folger-Laronde et al., 2022;Zhang, 2022).

Based on this description, the hypothesis formed:

H1: The broad level of environmental disclosure has an effect on firm value

The Effect of Social Disclosure on Firm Value

Social disclosure includes information about the company's social performance such as labor, human rights, product responsibility, and community. In view of stakeholder theory, companies must not only prioritize profit making, but must also provide benefits to stakeholders, so companies must carry out social responsibility activities. The company will continue to exist if the community realizes that the company operates based on a value system that is commensurate with the community's own value system.

Through the disclosure of social performance, companies depict the impression of social responsibility, so that they are accepted by society. With the acceptance from the community, it is hoped that it will encourage investors to make investment decisions by increasing the value of the company. This is in accordance with legitimacy theory which is related to how management tries to control public perceptions by improving the company's image (Melinda and Wardhani, 2020).

Masruroh and Makaryanawati's research (2020) shows the result that social disclosure has a positive effect on company value. The company's social activities that pay attention to the surrounding environment are responded positively by investors, thus increasing the company's stock price as an indicator of company value. This is supported by research of Jitmaneeroj (2018)which shows a positive relationship between social responsibility and corporate value in the United States.

Based on this description, the hypothesis formed:

H2: The wider level of social disclosure causes the better the firm value get.

The Effect of Governance Disclosure on Firm Value

A good ESG score with regard to corporate governance can cause stock prices to increase manifold as investors anticipate that less cash flow will be shifted and most of the company's profits will return to them as interest or dividends (Jensen & Meckling, 1976;La Porta et al.,2002). In addition, good corporate governance can also reduce ROE which is expected to reduce shareholder monitoring and audit costs, which leads to lower capital costs(Shleifer & Vishny, 1997).

Previous research conducted by Melinda and Wardhani(2020) found that the ESG performance of companies in the Asian region is measured using the ESG Governance Score which has a significant positive effect on company value. Companies with good governance values are proven to have higher corporate values compared to companies with lower governance values.

Disclosures related to corporate governance practices can assist managers in describing their level of compliance with corporate governance implementation(Kusumawati & Riyanto, 2005). Disclosure of governance can be used as a positive signal from management to investors that the company has been managed properly. Management uses this disclosure to inform investors that they (management) have made great efforts to reduce their opportunistic behavior. Thus, investors are expected to receive this positive signal and value the company higher.

Based on this description, the hypothesis formed:

H3: The wide level of corporate governance disclosure results in a better firm value.

V. RESEARCH METHODS

Population and Sample

The population in this study were all non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2021. Determination of the research sample was carried out using a purposive sampling technique, namely with the following criteria: (1) Non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2021; (2) Non-financial companies that publish consecutive annual reports and sustainability reports in full during the 2016-2021 period; (3) Non-financial companies that publish sustainability reports based on the GRI index. Table 1 presents the criteria for selecting the sample for this study.

Table1. Sample Selection Criteria

No.	Criteria	**Company**
1	Non-financial companies listed on the IDX until 2021	767
2	Non-financial companies listed on the IDX until 2021 which do not issue annual reports and sustainability reports	(545)
3	Non-financial companies listed on the IDX that publish annual reports and sustainability reports from 2016-2021 but not consecutively and incomplete financial data	(205)
Number of research samples		27
Total final sample data is 162 observations (27 companies x 6 years)		

Source: Processed Data (2022)

Based on the table above, the number of samples obtained is 27 companies. It is known that the number of non-financial companies listed on the Indonesia Stock Exchange for the 2016-2021 period and which have issued annual reports and sustainability reports is 222 companies. However, only 27 non-financial companies have issued annual reports and sustainability reports consecutively from 2016-2021 according to the GRI index and complete financial data. Thus, the total final sample is 162 observations (27 x 6 periods).

Variable Operationalization
Dependent Variable (Y)

The dependent variable in this study is firm value which is proxied by the Tobin's Q ratio. The Tobin's Q ratio is a measurement tool that is more accurate and reliable in measuring the effectiveness of management in utilizing and managing its resources (Tambunan et. al., (2017);Damayanthi (2019). Tobin's Q ratio can be formulated as follows:

$$\text{Tobin's Q} = \frac{(EMV + D)}{(EBV + D)}$$

Information:
q : the value of the company
EMV : *Equity market values*is the market value of the equity (Closing price x number of outstanding shares)
D : book value of total debt
EBV : *Equity book value*is the book value of equity (total assets – total debt)

Independent Variable (X)
Environmental Disclosure

To calculate the area of environmental disclosure, the researcher used content analysis which was done manually and focused on the analysis of the GRI Standards content index. This calculation uses a dummy variable with a value of 1 if the item is disclosed and a value of 0 if the item is not disclosed. The formula for calculating the value of environmental disclosure is as follows:

$$\text{Env Disc} = \frac{TotalEnvironmentalDisclosuresmade}{TotalEnvironmentalDisclosuresthatsupposedtobemade}$$

Social Disclosure

The social disclosure calculation technique can use a comparison of the number of indicators successfully reported by a company with the total number of indicators in each GRI module for each social aspect. This calculation uses a dummy variable with a value of 1 if the item is disclosed and a value of 0 if the item is not disclosed. The formula for calculating the value of social disclosure is as follows:

$$\text{Soc Disc} = \frac{TotalSocialDiclosuremade}{TotalSociakDisclosuresupposedtobemade}$$

Governance Disclosures

The governance disclosure calculation technique can use a comparison of the number of indicators successfully reported by a company with the total number of indicators in each GRI module for each aspect of governance. This calculation uses a dummy variable with a value of 1 if the item is disclosed and a value of 0 if the item is not disclosed, with the following formula:

$$\text{Gov Disc} = \frac{TotalGovernanceDiclosuresmade}{TotalGovernanceDiclosuressupposedtobemade}$$

Control Variables

Control variables are used in this study to test the sensitivity and consistency of the test results for all hypotheses. In general, the control variables in this study refer to previous studies (among others;Deng & Cheng, 2019;Ruan & Liu 2021).The control variables used in this study are firm size, leverage, company age, sales growth, and negative profits.This study also controls for annual and industry fixed effects. Table 2 below presents the definitions of this research variable.

Table 2 Variable Definitions

Variable	Abbreviation	Description
Dependent		
The value of the company	*Tobin's Q*	(Market Capitalization + Total Debt) / Total Assets
Independent		
Environmental Disclosure	*ED*	Total disclosure of environmental aspects based on the GRI G4 Index or GRI Standards

Social Disclosure	*SD*	Total disclosure of social aspects based on the GRI G4 Index or GRI Standards
Governance Disclosure	*GD*	Total disclosure of governance aspects based on the GRI G4 Index or GRI Standards
Control		
Company Size	*size*	Natural Logarithm Total Assets $_{\text{year } t}$
leverage	*Lev*	Total Liabilities $_{\text{year } t}$/Total Assets $_{\text{year } t}$
Company Age	*age*	The started year listing on the IDX
Sales Growth	*SG*	(Operating Income $_{\text{year } t}$ - Operating Income $_{\text{year } t-1}$)/Operating Income $_{\text{year } t-1}$
Negative gain	*loss*	If the net income is negative the value is 1, if the net income is positive the value is 0

Data Analysis Method

The analytical method used in this study is the panel data regression method using the EViews 12 statistical program because the data used in this study is panel data which is a combination of time series data and cross section. Panel data can be tested using the accuracy of statistical testing models. The panel data regression analysis used includes Common Effect/Ordinary Least Square (OLS), fixed effects, and random effects. The panel data model is then compared by testing the accuracy of the model. To choose the most appropriate model to use in managing panel data, there are several tests that can be done(Basuki & Prawoto, 2017), namely Chow Test, Hausman Test, Lagrange Multiplier (LM) Test.

Multiple regression analysis is used to test the effect of two or more independent variables on the dependent variable. The independent variables in this study are environmental, social and governance disclosures. The dependent variable is the firm value. This analysis was conducted to provide an overview of the relationship between the independent variables and the dependent variable by looking at the correlation results. The regression model used to test the hypothesis in this study can be formulated as follows:

$$Tobin'sQ = \alpha_0 + \beta_1 ED_{i,t} + \beta_2 SD_{i,t} + \beta_3 GD_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + \beta_6 Age_{i,t} + \beta_7 SG_{i,t} + \beta_8 Loss_{i,t} + YR + Ind + \varepsilon_{i,t} \quad \textbf{(1)}$$

Information :

Tobin's Q	=	Firm Value
ED	=	Environmental disclosure
SD	=	Social disclosure
GD	=	Governance disclosure
size	=	Company size
Lev	=	*leverage*
age	=	Firm age
SG	=	Sales growth
loss	=	Negative gain
B1-B8	=	*Regression Coefficient*
α	=	*Constanta*
ε	=	Errors

VI. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 3 below shows the results of the descriptive statistical analysis which describes the values of the mean, median, maximum, minimum, and standard deviation. The results of the descriptive statistics show that there are 27 companies with 6 (six) years of observation so that 162 observation companies are obtained. From the table it can be seen that the value of the company proxied by Tobin's Q has a maximum value of 2.9487 which is owned by PT. Indocement Tunggal Prakarsa Tbk. in 2017 and a minimum value of 0.4551 which is owned by PT. MitrabahteraSegaraSejatiTbk. in 2016. The average value (mean) is 1.2236 and the standard deviation value is 0.4441.

Descriptive statistical analysis shows that the average environmental disclosure made by non-financial companies in Indonesia is 0.3592. This indicates that the environmental disclosures disclosed in the activity sustainability report are still limited. This average result is almost the same as social disclosure, which is equal to 0.3187. Furthermore, companies are still limited in disclosing governance performance in financial reports, where the results of descriptive statistics show a lower average value when compared to environmental and social disclosures, which is only 0.2705

In terms of company size, which is proxied by the control variable, it shows an average result of 30.8854 with a minimum value of 27.7872, namely PT. Wilmar Cahaya Indonesia Tbk in 2018 and a maximum value of 33.5373, namely Astra International Tbk in 2021. The average leverage is 0.5326 with a minimum value of 0.0481, namely PT. MitrabahteraSegaraSejatiTbk. in 2021 with a maximum value of 1.9228, namely PT Bakrie & Brothers Tbk in 2016. The average age of the company is 18.9815, note that PT WaskitaBeton Precast Tbk began officially taking the floor on the Indonesia Stock Exchange through the Initial Public Offering in 2016, and this making the minimum age of the company 0. Meanwhile, the maximum age of the company is 44, namely PT Solusi Bangun Indonesia Tbk in 2021. The average yield of companies that have a negative profit is 0.8519. The average sales growth is 0.5033 with a minimum value of -0.7039, namely PT WaskitaBeton Precast Tbk in 2020 and with a maximum value of 67.6596 owned by PT Bumi Resources Tbk. in 2018.

Table 3: Results of Descriptive Statistics

	N	Means	Median	Maximum	Minimum	std. Dev.
Tobin_S_Q	162	1.2236	.1080	2.9487	0.4551	0.4441
ED	162	0.3592	.3125	0.9063	0.0000	0.2344
SD	162	0.3187	.3000	0.7500	0.0000	0.1756
GD	162	0.2705	.0910	1.0000	0.0000	0.3146
size	162	30.8854	0.9747	33.5373	27.7872	1.2668
Lev	162	0.5326	.5106	1.9228	0.0481	0.2889
age	162	18.9815	0,0000	44,0000	0.0000	10.1667
loss	162	0.8519	.0000	1.0000	0.0000	0.3564
SG	162	0.5033	.0454	67.6596	-0.7039	5.3193

The definition and measurement of variables are presented in table 2

Source: Processed Data (2022)

Regression Model Selection Test Analysis

Determination of the model aims to determine whether the test is in accordance with the existing data model. In this study, there were three panel data test models that were carried out before conducting panel data regression analysis, consisting of the Chow test, Hausman test and Lagrange multiplier test. Data processing to choose which model is most appropriate, using Eviews 12.

Chow test

This test was conducted to select the most appropriate model to be used between the estimation of the common effect model and the estimation of the fixed effect model. In determining the right model to use, it can be seen from the probability value. If the significance value is less than 5% (significant) then the estimation model that will be used is the fixed effect, but if the significance value is more than 5% (not significant) then the model used is the common effect model. Here are the test results:

Table 4: Chow Test Results

Redundant Fixed Effects Tests

Equation: Panel data

Test cross-section fixed effects

Effect Test	Statistics	df	Prob.
Cross-section F	15.7066	(26,127)	0.0000
Cross-sectionsChi-square	233,0818	26	0.0000

Source: Processed Results of EViews 12

Based on the test results between the common effect and the fixed effect, the probability value of the cross-section chi-square is 0.0000. The probability value is smaller than alpha 5% (0.0000 <0.05), this means that the correct fixed effect model is used compared to the common effect model.

Hausman test

This test was conducted to select the most appropriate model to be used between the estimation of the fixed effect model and the estimation of the random effect model. To determine the results of the Hausman test is to assess the probability of chi-square. If the probability < 0.05 then the model used is the fixed effect, but if the probability > 0.05 then the model used is the random effect.

Table 5: Hausman Test Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section Random	65.1106	8	0.0000

Source: Processed Results of EViews 12

Based on the Hausman test results table, the chi-square distribution value is 65.1106 with a probability of 0.0000 (less than 5%), so the correct model to use is the fixed effect.

Multiple Regression Model Analysis

Multiple regression analysis is used to test the effect of two or more independent variables on the dependent variable. The multiple linear regression analysis model in this study aims to test whether there is an influence between environmental disclosures, social disclosures and governance disclosures on firm value in non-financial companies listed on the Indonesia Stock Exchange for the 2016-2021 period.

Table 6: Multiple Regression Analysis Test Results

Variable	Coefficient	t-Stat	Sig	Conclusion
(Constant)	18.0213	4.7574	0.0000***	
ED	-0.4160	-2.1954	0.0300***	Significant
SD	0.6521	3.0089	0.0032***	Significant
GD	0.0259	0.2855	0.7757	Not significant
size	-0.5456	-4.3356	0.0000***	Significant
Lev	0.9071	6.4980	0.0000***	Significant
age	-0.0293	-1.9282	0.0561**	Not significant
loss	0.0729	1.1116	0.2684	Not significant
SG	-0.0014	-0.3772	0.7067	Not significant

***,**,* respectively indicate significance at the level of 1%, 5% and 10%

The definition and measurement of variables are presented in table 2

Source: Processed Data (2022).

Based on table 6it can be seen that the independent variables of environmental disclosure and social disclosure have a significant effect on firm value. Meanwhile, the independent variable of governance disclosure has no significant effect. The control variables, namely firm size and leverage (lev), have a significant effect on firm value. While the control variable firm age, negative profits and sales growth have no significant effect on firm value. From table 4.10, the multiple regression equation model is obtained as follows:

$$Tobin'sQ = 18{,}0213 - 0.4160ED_{i,t} + 0.6521SD_{i,t} + 0.0259GD_{i,t} - 0.5456Size_{i,t} + 0.9071Lev_{i,t} - 0.0293Age_{i,t} + 0.0729Loss_{i,t} + 0.0014SG_{i,t} + \varepsilon_{i,t}$$

Hypothesis Testing Analysis

The t statistical test is used to show how far the influence of one independent variable individually explains the variation of the dependent variable. The basis for making a decision on the t statistical test is to compare the significant value of t with the level of significance (α). The value of the level of significance used in this study is 5%. If the significant level t ≤ α 0.05, it can be concluded that H1 is accepted and there is a significant influence on the dependent variable.

Based on table 7, the results of the test for the coefficient of determination show that the Adj R square is 73.98%. Thus it can be concluded that environmental disclosure, social disclosure, governance disclosure, company size, leverage, company age, negative profits and sales growth are able to predict company value by 73.98%. Meanwhile, the remaining 26.02% can be explained by other variables not used in this study. Furthermore, the results of the f statistical test show an f-statistic value of 14.4664 with a significant value or probability of 0.000 less than 0.05 indicating that the regression model can be used to predict firm value or it can be said that environmental disclosure, social disclosure, governance disclosure, company size , leverage, company age,

Table 7: Hypothesis Testing Results

Variable	Coefficient	t-Stat	Sig	Conclusion
(Constant)	18.0213	4.7574	0.0000***	
ED	-0.4160	-2.1954	0.0300***	Significant
SD	0.6521	3.0089	0.0032***	Significant
GD	0.0259	0.2855	0.7757	Not significant
size	-0.5456	-4.3356	0.0000***	Significant
Lev	0.9071	6.4980	0.0000***	Significant
age	-0.0293	-1.9282	0.0561	Not significant
loss	0.0729	1.1116	0.2684	Not significant
SG	-0.0014	-0.3772	0.7067	Not significant
Adj R square				0.7398
F-sig				0.0000
F-statistics				14.4664
Number of Observations				162

***,**,* respectively indicate significance at the level of 1%, 5% and 10%

The definitions and measurements of the variables are presented in the table

Source: Processed Data (2022)

Based on the results of the hypothesis testing table above, it can be concluded that the results of the t test are as follows.

1. Environmental disclosure 0.0300 ≤ 0.05, then the independent variable Environmental disclosure has a significant effect on the dependent variable of firm value.
2. Social disclosure 0.0032 ≤ 0.05, then the independent variable social disclosure has a significant effect on the dependent variable of firm value.
3. Governance Disclosure 0.7757 ≥ 0.05, the independent variable governance disclosure has no significant effect on the dependent variable of firm value.
4. Firm size 0.0000 ≤ 0.05, then the control variable firm size has a significant effect on the dependent variable of firm value.
5. *Leverage*0.0000 ≤ 0.05, then the leverage control variable has a significant effect on the dependent variable of firm value.
6. Firm age 0.0561 ≥ 0.05, the control variable firm age has no significant effect on the dependent variable of firm value.
7. Negative profit (loss) 0.2684 ≥ 0.05, then the negative gain control variable does not significantly affect the dependent variable of firm value.
8. Sales growth (SG) 0.7067 ≥ 0.05, then the sales growth control variable has no significant effect on the dependent variable of firm value.

VII. Discussion

Hypothesis Test Results 1

Environmental disclosure has a regression coefficient of 0.4160 and shows a negative direction with a lower probability level than alpha (0.030 <0.05). From the results of this study, it is known that the first hypothesis (H_1) is accepted. This data interprets that there is a negative and significant influence between disclosure and firm value. This finding explicitly indicates that the wider the firm environmental disclosures, the lower the firm value will be.

Investors assess companies not only based on environmental disclosure information, but also from company financial factors. The results of this study are in line with research by Buana & Nuzula, (2017), and Ruan et. al., (2021) which states that extensive disclosure of environmental performance does not guarantee a high market value reaction either. This is because high environmental disclosure can cause greater costs to be incurred so that it will affect company profits and cause a market reaction. The market reaction will reduce the stock price or company value, which means the company will incur greater costs to deal with environmental damage due to business activities, thereby reducing company profits. The results of this study are also supported byD. Li et al., (2017)who found that environmental disclosure has a negative and significant effect on firm value. This is because investors do not understand environmental disclosure properly and also investors are more concerned about company financial information. In addition, investors also lack confidence in companies that carry out too much environmental disclosure because it will involve the distribution of resources and will reduce company profits(D. Li et al., 2017).

Hypothesis Test Results 2

The results of testing the second hypothesis (H2) show that there is a positive and significant effect of social disclosure on firm value. This is indicated by a significant level of 0.0032 which means it is smaller than 0.05 and a coefficient value of 0.6521. Thus, the second hypothesis (H2), which states that a wider level of social disclosure causes better company value, is accepted. These results are consistent with the signal theory which states that disclosing socially related information is one of the ways companies can do it to reduce information asymmetry between management and stakeholders.

In line with Stakeholder theory where the sustainability of the company does not only prioritize the interests of shareholders, but also involves the interests of stakeholders such as the public, employees, investors and others to create a better company scope so as to encourage better company performance which will increase the value of the company. This research shows that the disclosure of social aspects has begun to be considered by companies in their operational activities. The results of the research are in line with research that shows a positive influence on disclosing social aspects found byHardiningsih et al., (2020); Melinda (2020); Okay (2019).

Hypothesis Test Results 3

The results of this study indicate that disclosure of governance has no effect on firm value, so the third hypothesis (H_3) is rejected. This finding can be caused by the low number of corporate governance disclosures. Based on the results of the governance disclosure assessment, only 50 observations managed to achieve a disclosure value of more than the overall average value of 27.91%. This shows that the company's awareness of implementing and disclosing governance is still low because it is considered that the implementation and disclosure of governance is only to fulfill compliance with existing regulations, not as a necessity. In addition, the company considers that the disclosure of governance on the core items in the GRI Standards is sufficient to meet the criteria for disclosure of governance. From the existing data, it is known that as many as 46.79% of the observations only reveal the core items in the governance aspect, while only 7% of the observations reveal the complete governance performance. The results of this study support the opinion of Buallay et al., (2019),(Albassam & Ntim, 2017),Susilo et. al., (2018)andLucky &Parminto (2015)which shows that investors have not paid attention to information related to governance when investing in companies.

Control Variable Test Results

The results of testing the control variable firm size indicate that there is a significant negative effect on firm value. This is indicated by the significant level of 0.000 with a coefficient of -0.5456. The larger the size of the company, the larger and more complex the size of the board will be, which will result in lower firm value. According to Bhabra (2007) firm value has a significant negative relationship to firm size with the opinion that this is due to the lack of transparency in the company's management. Similar results were shown in research by Black et al. (2013), Abbasi et al. (2012), Ruan et al. (2011), Babatunde and Olaniran (2009).

LEV (leverage) results have a significant effect with a positive coefficient of 0.9071 on firm value proxied by the DAR (Debt to Asset Ratio) ratio. Debt policy is considered capable of increasing the firm value, so as to reduce agency conflicts that occur between managers and company owners. This is also in line with signal theory, a highly profitable company will try to avoid selling shares and prefer to obtain new capital by using debt. The use of debt shows that the company is able to pay obligations in the future and has the ability to control financial risks properly. With high leverage, the company can be used to obtain higher profits by using capital originating from debt or debt-financed assets, so that the company can optimally run its business hence the profit earned by the company increases. The results of this study are in line with research conducted byOkpa et al., (2019),Linawaty & Ekadjaja, (2017),Kouki, (2011), andSutama & Lisa, (2018).

Based on the results of the analysis it is known that the firm age variable obtains a significant p-value of 0.0561 > 0.05. Based on the results of data analysis it is also known that the coefficient value obtained is negative, which means that the longer a company has been in existence, it will cause a decrease in the firm value. The decrease is caused by the longer a company has been established, the company will tend to be stiff, have higher costs, slow growth, older assets, and reduce R&D investment activities and information that is less up to date. This causes the company to be less able to keep up with existing developments, so that it is less attractive to investors which causes the firm value to decrease (Gunawan&Juniarti, 2014).The results of this study are in line with the results of research conducted byHarahap (2019)as well as Dewinta& Setiawan (2016), Loderer and Waelchli (2009)who found that companies that have been standing for a long time experience slow growth so that investors are not interested in investing and make the firm value decrease.

The results of the regression test for the control variable show that the loss results (negative profits) do not affect firm value with a negative coefficient of 0.0729. This shows that investors are still interested in investing even though they have not yet made a profit because investors are looking at new business models even though the company has not generated large margins. In addition, investors think that companies whose profits are still negative can be caused by several factors such as economic conditions, stages or business cycles (stage in business and industrial life cycle), the impact of government policies and even one of the company's business strategies, so that negative profits are not significant effect on firm value.

The results of testing sales growth have a negative and insignificant effect on firm value with a negative coefficient of -0.0014. These results indicate that sales growth is not the main focus of investors in making investment decisions. Investors view sales growth as a result that is not final because revenue is still being deducted by operating costs. The results of this study are consistent with the research conductedPantow et al., (2015),Afnindy et al., (2021),Alexander (2021)which states that sales growth has no effect on firm value.

Additional Testing

Results of Multiple Linear Regression Analysis Additional Test

Since the observation period in this study included the case of the Covid pandemicthen the researchers conducted additional tests by adding the effect of the year affected by the Covid-19 pandemic to see whether companies that make environmental, social and governance disclosures during a pandemic have an effect on firm value or not.

Table 8: Multiple Linear Regression Analysis Test Results

Variable	Coefficient	t-Stat	Sig	Conclusion
(Constant)	17.6166	4.5534	0.0000	
ED	-0.4242	-2.2257	0.0278***	Significant
SD	0.6429	2.9499	0.0038***	Significant
GD	0.0249	0.2730	0.7853	Not significant
size	-0.5274	-4.0436	0.0001***	Significant
Lev	0.9143	6.5033	0.0000***	Significant
age	-0.0384	-1.7095	0.0898	Not significant
loss	0.0786	1.1811	0.2398	Not significant
SG	-0.0013	-0.3472	0.7290	Not significant
Covid	0.0400	0.5505	0.5829	Not significant
Adj R square				0.7380
F-sig				0.0000
F-statistics				13.9846
Number of Observations				162

***,**,* respectively indicate significance at the level of 1%, 5% and 10%

The definition and measurement of variables are presented in table 2

Based on table 6it can be seen that the independent variable environmental disclosures and social disclosures have a significant effect on firm value, while governance disclosures have no effect on firm value.

The control variables, namely firm size and leverage (lev), have a significant effect on firm value. While the control variables of firm age, negative profits, sales growth and covid have no effect on firm value.

Additional Test Discussion

From the results, it can be seen that there are similarities in the direction of all the variables studied using the additional Covid-19 test. The results of this study indicate that environmental disclosures, social disclosures and governance disclosures that have been made before the pandemic have not changed despite the pandemic occurring in 2020 and 2021. The results of this study prove that the COVID-19 pandemic has not significantly affected firm value. This study is in line with the results of the stud by yOfeser& Susbiyantoro (2021).

VIII. CONCLUSIONS AND IMPLICATIONS

From the analysis and hypothesis testing, it can be concluded that extensive environmental disclosures have a significant negative impact on firm value. Extensive social disclosure has a positive and significant effect which causes the firm value to get better. Meanwhile, the extent of governance disclosure has no effect on firm value.

The results of these various studies imply that companies still have a lot of considerations in making environmental disclosures sincethey are still facing relatively high cost pressures and a large number of initial investments that can reduce company performance which results in a decrease in firm value. In addition, companies tend to disclose environmental, social and governance (ESG) only to comply with government regulations, not on the basis of company needs.However, it is expected that over time the cost effect of ESG activities will gradually weaken, and companies can get positive benefits from ESG activities which in turn can increase firm value and investor interest in investing can encourage the company's continuous improvement.

This research is expected to provide recommendations to the government regarding the conception of ESG so that a legal umbrella or regulation can be created to protect it. With the existence of regulations that regulate environmental, social, and corporate governance issues, it is possible to realize the development of a healthy Indonesian investment climate and build an investment culture that is guided by ESG.

For managers, it is expected to appropriately improve ESG activities to achieve better and more competitive corporate values and image. Therefore, it is important for companies to strive for the completeness and quality of sustainability reporting, because it is part of a shared commitment in creating business sustainability in Indonesia. The implications for investors are expected to increase awareness in carrying out business and investment practices that do not only focus on economic aspects, but ESG investments make investors more careful in choosing issuers that also pay attention to environmental, social and good governance aspects so as to create a sustainable business environment.

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