

The Effect of Environmental, Social, Governance (ESG) Disclosure on Company's Profitability & Value in The Sri-Kehati Index 2015-2020

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Abstract—*The aim of this research is to examine the impact of environmental, social, and governance (ESG) disclosure on company profitability and value in the SRI-KEHATI index from 2015 to 2020. The methodology used is a quantitative technique based on secondary data. Statistical software was used to do the data analysis. The study data is derived from the Thomson Reuters ESG Database and the financial reports of seven Indonesia Stock Exchange nonfinancial firms chosen with purposive sampling method. The research includes three independent factors (environmental score, social score, and governance score), as well as control variables (leverage) and dependent variables (profitability with return on equity as a proxy and company value with Tobin's Q as a proxy). This research concludes that company with good corporate governance had a beneficial effect on both dependent variables in this research. Meanwhile, the environmental score has a negative impact on return on equity and company value. In addition, the social score has a negative impact on company value and gives no effect on return on equity. Stakeholders may utilize the implications of this finding to assess the company's performance. The outcome of this research can be used to present a successful model for non-financial companies in Indonesia listed in the SRI-KEHATI Index to implement the role of ESG disclosure in performance.journal. The authors must follow the instructions given in the document for the papers to be published. You can use this document as both an instruction set and as a template into which you can type your own text.*

Keywords— ESG, Firm Value, Profitability.

Abstrak—Penelitian ini bertujuan untuk menguji pengaruh pengungkapan lingkungan, sosial, dan tata kelola (ESG) terhadap profitabilitas dan nilai perusahaan dalam indeks SRI-KEHATI dari tahun 2015 sampai dengan tahun 2020. Metodologi yang digunakan adalah teknik kuantitatif berdasarkan data sekunder. Perangkat lunak statistik digunakan untuk melakukan analisis data. Data penelitian berasal dari Thomson Reuters ESG Database dan laporan keuangan tujuh perusahaan non keuangan Bursa Efek Indonesia yang dipilih dengan metode purposive sampling. Penelitian ini mencakup tiga faktor independen (skor lingkungan, skor sosial, dan skor tata kelola), serta variabel kontrol (leverage) dan variabel dependen (profitabilitas dengan return on equity sebagai proksi dan nilai perusahaan dengan Tobin's Q sebagai proksi). Penelitian ini menyimpulkan bahwa perusahaan dengan tata kelola perusahaan yang baik memiliki pengaruh yang menguntungkan pada kedua variabel dependen dalam penelitian ini. Sedangkan skor lingkungan berpengaruh negatif terhadap return on equity dan nilai perusahaan. Selain itu, skor sosial berpengaruh negatif terhadap nilai perusahaan dan tidak berpengaruh terhadap return on equity. Pemangku kepentingan dapat memanfaatkan implikasi dari temuan ini untuk menilai kinerja perusahaan. Hasil penelitian ini dapat digunakan untuk menyajikan model yang berhasil bagi perusahaan non-keuangan di Indonesia yang terdaftar dalam Indeks SRI-KEHATI untuk menerapkan peran pengungkapan LST dalam kinerja.

Kata kunci: ESG, Nilai Perusahaan, Profitabilitas.

INTRODUCTION

Recently, the public has become more conscious of the critical relevance of environmental and social well-being, as well as the role that businesses play in their operations. Global warming and the pandemic crisis have also become impetus for

companies to care for the surrounding environment. As a member of the United Nations, Indonesia companies also need to achieve Sustainable Development Goal target 12.6 by adopting sustainable practices and incorporating sustainability reports to the public by 2030. To encourage this target, United Nation (UN) launched a Sustainable Stock Exchange Initiative to support listed companies disclosing their nonfinancial information, including Environment, Social, and Governance (ESG) data in the sustainable report (SSE Initiative, 2018). It is hoped that by incorporating sustainable corporate practices and financial statements, attempts to improve the company's economic impact would be consistent with social and environmental values. Sustainability reporting functions similarly to a new disclosure model focused on extracting potential value applicable to company policy (Buallay, 2019). In Indonesia itself the Financial Service Authority (OJK) also supports the ESG disclosure through POJK No. 51 of 2017 that implements a regulation for Financial Service Institutions, Issuers and Public Companies to make sustainable reporting.

Moreover, Almeyda and Darmansyah (2019) reported that the term ESG was created to facilitate the incorporation of ESG factors into the capital market. Additionally, the United Nations Environment Programme's Finance Initiative established a connection between ESG concerns and financial valuation. Furthermore, investors are becoming increasingly concerned with ESG transparency. It's because effective, credible, trustworthy, and relevant ESG data is essential to their investment decisions. This investor expectation drives companies to devote more resources to generating ESG reports in order to meet investors' needs (Wong, 2017). The Global Reporting Initiative (GRI) Index has been used to benchmark corporate social responsibility assessment since a long ago by a number of big corporations. The guidelines have standardized the framework of sustainability reporting in general to assist firms in communicating their economic, environmental, and social consequences. To analyze corporate sustainability reports, Thomson Reuters has launched an ESG metrics based on GRI concepts (Thomson Reuters, 2017). The Environmental, Social, and Governance (ESG) assessment was developed by Thomson Reuters after evaluating sustainability reports from companies. Using company-reported data, this statistics organization are designed to objectively and transparently examine a firm's relative. Sustainability performance efficiency, engagement, and usefulness across a range of ESG metrics, including pollution, environmental new product development, individual rights, and shareholder value, among others. Additionally, Melinda and Wardhani (2020) stated that although the ESG index is based on GRI values, it is not identical to GRI. GRI establishes reporting requirements based on the company's perspective when planning CSR. Meanwhile, the ESG index is constructed from an investor's perspective by using KPIs (Key Performance Indicators).

In Indonesian stock exchange, SRI-KEHATI Stock Index is one of index which included the corporations that met the criteria of Sustainable Responsible Investment principles as well as environmental, social, and governance factors. The index has established itself as the sole guide in the Indonesian capital market for investment principles that prioritize ESG issues. For the financial aspect, there are several requirements to be selected in the index, such as the market capitalization and total asset minimum of 1 trillion rupiahs, free float ratio above 10%, and price-earnings ratio must be positive (Kehati Foundation, 2020). Many investors favor the companies featured in The Kehati Foundation's Sustainable and Responsible Investment Index because they have performed well. Since the end of 2014, the SRI-KEHATI index has averaged an annual return of 11.72 percent, and this is expected to continue until 2020. The other index, on the other hand, was below it. ESG investing entered the pandemic with a vengeance, but its tremendous growth during 2020 dispelled any remaining doubt. A previous study also reported that company with supported ESG's social dimension will recover quicker from the crisis (Moran, 2021). Company with solid good ESG practices sustainability practices result in better operational performance and positively influence the stock performance (Clark et al., 2015). Additionally, company is recommended to implement ESG practice because it could elevate company's competitive advantages which eventually enhance the value of companies (Cakranegara & Sidjabat, 2021). Furthermore, company performance is crucial for stakeholders (Triyani et al., 2020). Financial indicators such as profitability ratios and market valuation can assess a company's performance. Financial performance assessment is essential for determining a company's success, regardless of whether it met the intended goal.

Whether financial or non-financial, a company's disclosure is unquestionably now a vital indicator in measuring and analyzing the company's outcome, regardless of whether the disclosure affects the financial performance. The company's credibility will be enhanced by reporting the environmental, social, and corporate governance commitments. Growing revenue is essentially dependent on improving the company's image and customer confidence, which affects gaining loyalty to the company (Safriani & Utomo, 2020). Scholars and practitioners tend to put a high value on company ESG disclosure. Companies are interested about a company's sustainability profile and want to know how it invests and conducts business therefore companies should have a more sustainable and long-term view of value.

Stakeholders' value social factors such as human rights, equity, workplace diversity, and contributions to society. Capital structure, board composition, shareholder rights, and transparency standards are also important factors of corporate governance. Investors could have expectations for goods that account for and accurately portray investment ties. However, the stakeholder

perspective toward ESG condition on companies in Indonesia might be different compare to another country that already successfully implemented the practice. In fact, there are several regulations that require companies in Indonesia to make environmental and social reports, the details of how the provision will be implemented are not yet known (Johan, 2021). This situation makes numerous company stakeholders struggle with determining their ESG obligations. Additionally, Indonesia's new job creation act or Omnibus bill has weakened the sustainability assessment which prevents organizations from committing social and environmental compliance with international standards. This condition makes the further observation on the real impact of ESG towards Indonesia companies might be interesting.

Various empirical studies have researched the application of sustainability reporting or ESG disclosure to profitability and firm value generally correlated. Several studies proved that the good Environment score can arise the ROE performance as the profitability indicator (Buallay, 2019; López-Toro et al., 2021; Shakil et al., 2019). However, another study also revealed that individual environment factors didn't give a positive effect to ROE (Alareeni & Hamdan, 2020; Atan et al., 2018; Lee et al., 2018). Furthermore, for firm value, prior study found that environmental and Tobin's Q have a positive correlation (Buallay, 2018; Li et al., 2018; Alareeni & Hamdan, 2020; Lopez-Toro et al., 2021). On the other hand, according to Balasubramanian (2019) there also negative relationship between environmental and firm value.

Moreover, social accountability also had a strong positive and important effect on ROE (Bodhanwala & Bodhanwala, 2018; Buallay, 2019; Safriani & Utomo, 2020; Triyani et al., 2020) and Tobin's Q (Li et al., 2018; Alareeni & Hamdan, 2020). Nevertheless, previous studies also reported that social score also negatively related to ROE (Buallay 2019 and Alareeni & Hamdan, 2020) and Tobin's Q (Balasubramanian, 2019; Buallay, 2019). Additionally, there also pros and cons of the corporate governance research toward ROE and Tobin's Q. Some previous studies revealed that governance factors had a significantly positive effect on ROE (Han et al., 2016; López-Toro et al., 2021) and Tobin's Q (Alareeni & Hamdan, 2020; Buallay, 2019; Li et al., 2018; López-Toro et al., 2021). In addition, governance transparency had a negative influence on ROE (Alareeni & Hamdan, 2020; Buallay, 2019) and Tobin's Q (Lee et al., 2018; Balasubramanian, 2019).

Therefore, it is necessary to understand better how ESG score variables affect company performance to obtain a different empirical outcome amid previous research findings. With the inconsistencies and differences in the results in previous studies, the researchers conducted further research on the effect of ESG disclosure on companies in the SRI-KEHATI Index as proxied by return on equity and Tobin's Q. In addition, this study has several differences from previous studies. First, this study will use a sample of companies in the SRI-KEHATI Index using an observation period in 2015-2020. Second, this study will use a different dependent variable from Husada and Handayani (2021) by only use Tobin's Q as independent variable and adding return on equity as the second independent variable.

LITERATURE REVIEW

Environmental, social, and governance (ESG) referred to non-financial data that is often used in evaluating corporate social responsibility (Buniamin et al., 2015). ESG evaluation is assessed through the score. ESG disclosure explained about a strategy for increasing accountability about a firm's success and for communicating with stakeholders such as shareholders or investors, staff, clients, and communities (Weber, 2014).

The environmental score derived from a review of publicly accessible information about the firm, such as annual reports, sustainability reports, and internet sources (Clarkson et al., 2008). There were three primary environmental assessment metrics, such as resource use score, emissions score, and innovation score (Thomson Reuters, 2017).

Social score assessed customer behavior and how they responded to products, as well as other social concerns such as charitable contributions, corporate ethics, and their efforts to protect human rights (Dorfleitner et al., 2013). The calculation of social factors is also dependent on firms in the economic division of the evaluation. There were four main assessment criteria in social aspects, such as workforce score, human rights score, community score, and product responsibility score (Thomson Reuters, 2017).

The guideline rules, practices, and processes that guided and regulated a corporation was known as corporate governance. This element encompassed the entire framework for managing and supervising a company. Corporate governance and the functions associated with it have a direct impact on the organization's progress, on encouraging investors and assisting in the optimisation of the company's assets, on strengthening the business's foundations, and on achieving the expected improvement in the company's performance. In other words, effective corporate governance secured towards future financial concerns that fosters extraordinary development, and so is critical to the growth of business success. Corporate governance's overall impact

on business welfare was presently being evaluated (Ehikioya, 2009). There were three evaluation requirements for governance elements, such as management score, shareholders score, and CSR strategy (Thomson Reuters, 2017).

Profitability refers to a business's ability to earn profits over a specified time period. Profitability is quantified using a variety of financial measurements. Profitability ratios can assess the performance and healthiness of company's financial performance. According Munawir (2010) in Wijaya (2019), evaluating financial performance could be done by comparing financial ratios with standard ratios and comparing financial ratios of the year assessed with financial ratios in previous years. The Return on Equity (ROE) is a ratio that indicates a management performance in delivering returns from shareholder investment funds. This profitability ratio is calculated as net income to total equity (Titman et al., 2014).

The firm value is company's accomplishment as measured by the stock price, which is influenced by the financial market's demand and supply and represents the public's assessment of the firm's performance (Harmono, 2009). Tobin's Q formula determined the firm's value. This ratio evaluates and identifies state-owned business investment opportunities or growth potential (Lang et al., 1989). This ratio reflects the latest financial market calculation of the return on incremental investment. According to Brainard and Tobin (1968) this ratio is a business's market value to its replacement expense, or its present market value to its book value of assets.

Financial leverage refers to how companies utilized borrowed funds to generate expected shareholder's return Brealey et al., (2020) Leverage can have a relationship with return on equity as a measure of profitability and Tobin's Q as a measure of company value. According to Lanis and Richardson (2013) in Atan et al., (2018), financial leverage is related with environmental, social, and governance disclosure because when a company has a high leverage, company will add more environmental, social, and governance information in response to increased scrutiny from financial institutions. Consistent with Penman (2013), financial leverage was assessed from debt divided by equity.

Hence, the variables used in this study are three independent variables, namely the Environment Score as the ES variable, the Social Score as the SS variable, and the Governance Score as the GS variable, and one control variable, namely debt-to-equity ratio as DER. Furthermore, the two dependent variables used are Tobin's Q as TQ and return on equity as ROE.

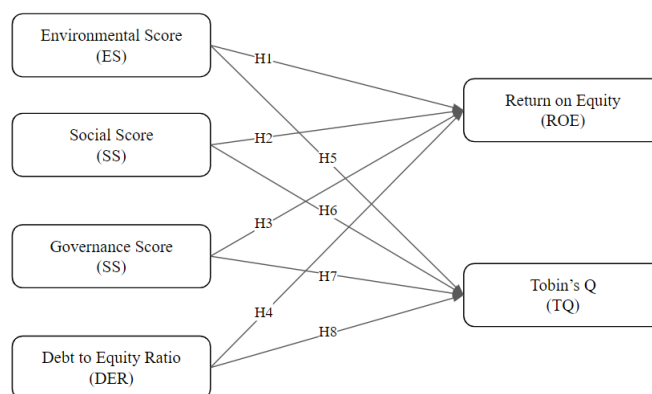


FIGURE 1. THEORETICAL FRAMEWORK

HYPOTHESIS

- H1: There is an influence of environmental score on profitability.
- H2: There is an influence of social score on profitability.
- H3: There is an influence of governance score on profitability.
- H4: There is an influence of leverage on profitability.
- H5: There is an influence of environmental score on firm value.
- H6: There is an influence of social score on firm value.
- H7: There is an influence of governance score on firm value.
- H8: There is an influence of leverage on firm value.

METHODOLOGY

This research population included firms in the SRI-KEHATI Index from 2015 to 2020 that disclose the ESG data in Thomson Reuters ESG 4 Database. There were 7 of the 39 companies included in the SRI-KEHATI Index was selected for the research's sample with purposive sampling method. Several criteria also used to choose the sample, including 1) Nonfinancial

companies that have been consistently listed in the SRI-KEHATI Index from 2015 to 2020. 2) Nonfinancial companies that have complete financial statements which are published in Indonesia Stock Exchange in the period of 2015 to 2020. 3) Nonfinancial companies that have an ESG score assessment in the Thomson Reuters Asset 4 ESG Database in the period of 2015 to 2020. Hence, 42 observations were analyzed in this research.

A secondary data method was employed in this study for the data collection method, which included scientific journals, papers, and other publications related to the study. There are some steps in the researcher's designed data collection approach, including: 1) Assessing the ESG data which comes from the Thomson Reuters ESG Database. This database also used by prior studies as a proxy for environmental, social and governance disclosure (Shakil et al., 2019; Velte, 2017). 2) Assessing the most updated annual financial statements reports in the period of 2015 – 2020 from Indonesia stock exchange and company official website. 3) Identifying the data of seven companies that meet the data requirements.

The data was analyzed with panel regression model. Descriptive statistical analysis was used to summarize and present the data. To test the hypothesis, this research used multiple regression to measure the effect of an independent variable to the dependent variable (Sekaran & Bougie, 2016). Eviews 10 was used as a statistics software Three dependent variables were used in this research, such as Environmental Score, Social Score, and Governance Score. For the independent variables, this research used Return on Equity and Tobin's Q. Financial leverage was also used as a control variable in this research. The equation that will be used in the study is:

$$\begin{aligned} \text{ROE} &= \text{ES} + \text{SS} + \text{GS} + \text{DER} + e \\ \text{TQ} &= \text{ES} + \text{SS} + \text{GS} + \text{DER} + e \end{aligned}$$

FIGURE 2. MULTIPLE REGRESSION EQUATION

Description:

TQ = Tobin's Q

ROE = Return on Equity

α = Constanta

β_1, \dots, β_i = Regression Coefficient

ES = Environment Score

SS = Social Score

GS = Governance Score

e = Error

The t statistical test measured how much influence one independent variable has on individually explaining the dependent variable. The approach compares each coefficient of the result produced from the independent variable's t-value to a table value using a significance level of 0.05. This test shows a significant result if the probability of t-statistics < significant level then the null hypothesis is rejected. The F statistical test depicted whether all independent variable has a significant effect on the dependent variable in the observed or estimated regression model. The null hypothesis (H0) is accepted if the significance value is greater than 0.05 and vice versa (Singgih, 2014). The coefficient of determination (R²) used to measure how much the independent variable can simultaneously explain the dependent variable. If the adjusted R² value is small, it means that the dependent variable's ability to explain the dependent variable is very limited, whereas if the adjusted R² value is large, the greater the independent variable's propensity to justify the dependent variable (Ghozali & Ratmono, 2020).

RESULT AND DISCUSSION

Descriptive Statistics

TABLE 1. DESCRIPTIVE STATISTICS

Variables	Mean	Median	Maximum	Minimum	Std. Dev
ROE	0.126580	0.13507	0.20688	0.0114	0.045696
TQ	1.856230	1.451725	4.9683	1.08482	1.073162
ES	0.131179	0.12503	0.2643	0.05144	0.057673
SS	0.204608	0.20163	0.37311	0.1062	0.063879

GS	0.126183	0.12759	0.25104	0.02769	0.065242
DER	0.674460	0.428545	3.44274	0.02377	0.776551

The descriptive statistics presented 42 firm year observations. Based on Table 1, the average (mean) of ROE in 2015-2020 is 12.7% with a standard deviation of 4.6%. The mean value exceeds the standard deviation which means that the ROE data is homogeneous and evenly distributed. The highest or maximum value of ROE is 20.7%. The lowest or minimum ROE value is 1.1% but the number is still positive which means good. Similar to ROE, TQ's average (mean) value is higher than the standard deviation.

The average (mean) of Tobin's Q in 2015-2020 is 1.856 with a standard deviation of 1.073 in Table 1. The highest or maximum value is 4.968 which indicating that the company had a greater company's value than the asset value. It shows that the market valued the company. The lowest or minimum TQ value is 1.085. The ES, SS, and GS data is also homogeneous because the mean value exceeds the standard deviation.

Table 1 shows that the highest average or mean of ESG in 2015-2020 is SS with 20.5% which means that in average company in Indonesia had contributed sustainable practice in a good social manner. The highest or maximum value of ESG is SS with 37.3%. The lowest or minimum ESG value is GS with 2.8% which still positive.

In addition, the average (mean) of DER in 2015-2020 is 0.674 with a standard deviation of 0.776 which shows that DER's average (mean) value is higher than the standard deviation. Hence, the data is heterogeneous that isn't evenly distributed and has a high distribution data. The highest or maximum value is 3.443. The highest DER occurred in 2016 indicating that the company had a greater debt than the equity value. The lowest or minimum DER value is 0.024.

Multiple Regression Result

Multiple regression analysis aims to find out the influence between independent variables (ES, SS, GS, and DER) towards the independent variables (ROE and TQ) of nonfinancial companies listed in SRI-KEHATI Index 2015-2020 which are presented in two models. In the Model 1, the dependent variable that the researcher used is ROE as the proxy of profitability. Furthermore, Model 2 used Tobin's Q as the proxy of firm value. The outcomes of Model 1 and Model 2 multiple regression analysis presented in Table 2 using the random effect model.

TABLE 2. MODEL 1 MULTIPLE REGRESSION ANALYSIS RESULT

Model 1 (ROE)				
Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	0.105258	0.028556	3.68605	0.000700
ES	-0.346942	0.090929	-3.815532	0.000500
SS	0.180255	0.098524	1.829556	0.075400
GS	0.384357	0.136625	2.813219	0.007800
DER	-0.0275	0.007271	-3.782103	0.000600
F-test	7.334705			
Prob(F-test)	0.000187			
Adj. R ²	0.381961			
Model 2 (Tobin's Q)				
Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	2.189245	0.318892	6.865154	0.0000
ES	-0.028255	0.010816	-2.612429	0.0129
SS	-0.036063	0.012286	-2.935352	0.0057
GS	0.066901	0.019383	3.451486	0.0014
DER	-0.101815	0.245216	-0.415204	0.6804
F-test	5.396315			
Prob(F-test)	0.001587			
Adj. R ²	0.300165			

Source: Proceed data by Eviews 10

The Result of Hypothesis 1 Testing

The result of the first hypothesis depicts that environmental score has significant partial influence towards the return on equity of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the environment score is 0.0005 and H_{a1} is accepted. With a coefficient regression of -0.346942, environmental score has a negative significant influence on return on equity. The result indicates that the higher environmental performance will decrease the company's profitability.

The outcome of this study showed an adverse result with Buallay (2019), Shakil et al. (2019), and Lopez-Toro et al. (2021) which showed a positive relationship towards return on equity. According to Shakil et al. (2019), the factor because companies occasionally overinvest in environment disclosure to serve their own personal objectives, such as to hide negative news or controversies, which may not result in improved return on equity. Overinvest in environmental action resulted with higher expenditure which burdened the financial performance of the company (Alareeni & Hamdan, 2020). Then, this result is in line with Atan et al. (2018), Alareeni and Hamdan (2020), and Lee et al. (2018) who reported that environmental accountability adversely affects return on equity.

The Result of Hypothesis 2 Testing

The second hypothesis testing result depicts that social score has no partial influence towards the return on equity of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the social score is 0.0754 and H_2 is accepted. With a coefficient regression of 0.180255, social score has a positive insignificant influence on return on equity.

The results of this study differ from the findings of Shakil (2019) and Lopez-Toro et al. (2021) who reported a positive significant relationship between social score and return on equity where social disclosure had an impact on increasing profitability. In addition, the research conducted by Buallay (2019) and Alareeni & Hamdan (2021) also gives different results which show that social accountability has a negative significant effect on profitability as measured by return on equity. According to Hidayah et al. (2020), this result implies that social practice will impact profitability not in the short term but in the long term. That's why the effect of social performance hasn't realized in short term This outcome is also in line with the result from Lee et al. (2018) which also shows that the social score has no influence on profitability.

The Results of Hypothesis 3 Testing

The third hypothesis result depicts that corporate governance score has a significant partial influence towards the return on equity of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the environment score is 0.0078 and H_{a3} is accepted. With a coefficient regression of 0.384357, governance score has a positive significant influence on return on equity. This indicates that the higher corporate governance performance results in higher profitability.

This positive result of corporate governance consistent with prior literature studies that found the useful impact from corporate governance transparency towards return on equity (Han et al., 2016; Lopez-Toro et al., 2021). This implies that good corporate governance optimizes the company's operation which is effective to generate more profit. A robust corporate governance practice is beneficial for enhancing financial performance to the greatest advantage of stakeholders, minimizing unnecessary management cost, and helping businesses to sustain in the long term (Fama & Jensen, 1983). Therefore, this outcome has not an adverse impact on the company's profitability, which means this study differs from Buallay (2019) and Alareeni & Hamdan (2020).

The Results of Hypothesis 4 Testing

The fourth hypothesis result depicts that debt-to-equity ratio as a control variable has a significant partial influence towards the return on equity of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the debt-to-equity ratio is 0.0006 and H_{a4} is accepted. With a coefficient regression of -0.027500, debt-to-equity ratio has a negative significant influence on return on equity.

Consistent with the study from Buallay (2019), the result implies that an increase in debt-to-equity ratio will lower profitability. This implies that there is an increase in interest expense because of the higher debt which result in lower profits (Hidayah et al., 2019). This result contradicts prior research that established a beneficial association between leverage and return on equity (Alareeni & Hamdani, 2020; Atan et al., 2018). The Influence of Environmental Score towards Firm Value

The Results of Hypothesis 5 Testing

The fifth hypothesis result depicts that environmental score has no significant partial influence towards the Tobin's Q of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the environment score is 0.0129 and H_{a5} is accepted. With a coefficient regression of -0.028255, this result implies that the environmental score has negative insignificant influence on Tobin's Q.

This finding is not in line with the study which result in positive outcomes from Buallay (2018), Li et al. (2018), Alareeni & Hamdan (2020), and Lopez-Toro et al. (2021). The negative result is similar to Balasubramanian (2019) result. The negative significant outcome happened because the effect of sustainability action towards financial performance will be significant in the long run (Eccles et al., 2014) which means that in the short time environmental practice requires high amount of expenditure. Based on the study that also used Indonesian companies, stated that the shareholders assumed the management of companies contributed more to environment practice than optimizing firm value and also the environmental disclosure is still not mandatory which makes shareholders difficult to assess it (Husada & Handayani, 2021).

The Results of Hypothesis 6 Thesting

The sixth hypothesis result depicts that social score has significant partial influence towards the Tobin's Q of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 2, shows the probability value of the social score is 0.0057 and H_{a6} is accepted. With a coefficient regression of -0.036063, social score has a negative significant influence on Tobin's Q. Unlike the results from Li et al., (2018), Alareeni & Hamdan (2020) which showed the beneficial effect of social actions on firm value. This study is similar to the result from Buallay (2019) and Balasubramanian (2019). In addition, this result also differs from Husada & Handayani (2021), and Velte (2017) that shown no significant relationship towards firm value.

Based on the findings from Friedman (1962) and Buallay (2019), the adverse effect of social performance on firm value might have happened because of the company's objectives to maximize the wealth of stakeholders through policies in the social practice. In addition, according to Shakil (2019), the better the social actions and performance required more cost to implement. This gives an unfavor signal to investor behavior. Many investors will consider the expensive activities that reduce the financial performance in the short run. As a result, investors are less interested in investing, resulting in a decrease in market demand (Safriani, 2020). Thus, better social performance will result in lower firm value. This study is similar to the result from Buallay (2019) and Balasubramanian (2019). However, this result is different from Li et al., (2018), Alareeni & Hamdan (2020), Husada & Handayani (2021), and Velte (2017).

The Results of Hypothesis 8 Testing

The eighth hypothesis result depicts that debt-to-equity ratio as a control variable has no significant partial influence towards the Tobin's Q of nonfinancial companies listed on SRI-KEHATI index. The result presented on table 4.9, shows the probability value of the debt-to-equity ratio is 0.6804 and H_{08} is accepted. With a coefficient regression of -0.101815, debt-to-equity ratio has a negative insignificant influence on Tobin's Q.

The result is not in line with Buallay (2019) and Atan et al. (2018) which shows that debt-to-equity ratio has a significant influence on firm value. However, this outcome shows the opposite effect from those previous studies. This outcome indicates that investors didn't put more intention into the firm value. According to Husada & Handayani (2021), leverage is more frequently utilized to measure the condition of a company's liquidity, then the changes of leverage amount is not the primary factor used by investors to determine the value of the company. Thus, this study is consistent with the study from (Alareeni & Hamdan, 2021; Li et al., 2018; Husada & Handayani, 2021).

The Result of F Testing

Based on table 2 above, the probability value of f-statistic Model 1 is 0.000187 and Model 2 is 0.001587, indicating that the probability value of f-statistics for both models is lower than 0.05. Thus, the environmental score, social score, and governance score have a major simultaneous influence on the profitability and firm value of SRI-KEHATI nonfinancial companies.

The Result of Coefficient Determination (Adjusted R²)

As indicated in Table 2 above, the adjusted R square for Model 1 is 0.442257, suggesting that all independent variables, which include the environmental score, the social score, the governance score, and the debt-to-equity ratio, have a 44.2257

percent simultaneous effect on profitability. The remaining 55.7743 percent were influenced by factors not examined in this study. The adjusted R square of Model 2 is 0.300165, indicating that all independent variables, namely environmental score, social score, governance score, and debt-to-equity ratio, have a cumulative effect on company value of 30.0165 percent. The remaining 69.9835 percent were determined by factors not examined in this study.

CONCLUSION

The point of the study is to ascertain the impact of environmental, social, and governance disclosure on the profitability and firm value of companies included in the SRI-KEHATI Index from 2015 to 2020. The result indicates in partial, environmental Score, social Score, and governance Score influence profitability. Environmental disclosure has a negative significant influence towards profitability. It means a decrease in environmental score ratio will impact to increase in profitability as well. Furthermore, social disclosure has a positive insignificant influence towards profitability. It explains that when the social score is increasing, profitability will follow insignificantly. Moreover, governance disclosure has a positive significant influence towards profitability. This results in a rise in governance score, which in turn results in increased profitability.

For Firm Value, environmental, social and governance score influence Tobin's Q. Environmental disclosure has a negative significant influence towards firm value. This suggests that lowering the environmental score ratio will have adverse effect on the worth of company. It implies that when the environmental score is increasing, firm value will decrease significantly. Social disclosure has a negative significant influence towards firm value. It explains that when the social score is increasing, firm value will decrease significantly. However, governance disclosure has a positive significant influence towards firm value. The increase in governance score, results in increased value of company. As a control variable, leverage has a negative significant influence towards profitability. It means a decrease in debt-to-equity ratio will impact to increase in profitability as well. However, leverage has a negative insignificant influence towards firm value. It explains that when the debt-to-equity ratio is increasing, firm value will not be affected.

In this study, the good assessment corporate governance can enhance both independent variable performances. Additionally, the social accountability has also beneficial effect towards profitability. However, the environmental disclosure and debt-to-equity ratio has an adverse impact on profitability. Furthermore, environmental and social disclosure also has an adverse impact on firm value. All variables must be concerned by managers in every non-bank company to make decisions and strategy about the sustainability practice, so that managers can achieve the company's goals and the prosperity.

The relationship between environmental score, social score and governance score towards profitability and firm value, also the relationship between leverage towards profitability hopefully beneficial for investors to opt for the company that will be invested. The interpretation of this study may help investors to decide for short or long-term investment. Moreover, investors need more advocates to enhance their understanding of the concept of ESG and its relevance in companies to make more informed investment decisions.

In Indonesia itself, acts that support sustainable disclosure such as the job creation law are very weak. So, financial policy and regulatory makers in Indonesia such as financial services authorities should pay more attention to ESG factors and have clear and mandatory laws related to sustainability reporting. In addition, related Indonesia parties should create official assessment to control the quality of information about ESG factors in the company and ensure transparency and reliability in their measurements. By supporting ESG regulation is expected to promote Indonesia achieved SDGs by 2030.

In this research, there are still many limitations in terms of nonfinancial and financial variables as well as input and output variables. This study only used a 6 years period and 42 samples, in order to get a more accurate and significant effect between variables, future researchers should take a longer period of observation and add more varied samples. They also may consider taking a sample from certain industries that really have an impact on ESG factors. Adding more companies in SRI-KEHATI Index that have good ESG practices also will enhance the relationship between variables. Additionally, future researchers may add more independent, control, and moderating variables like firm size, top management factors, type of risk, and etc. The recommendation aims to increase the relationship between environmental, social, and governance with their financial performance.

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