THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ON FIRM VALUE

(Case Study on Companies Listed on the ESG Leader Index for the 2021-2023 Period)

THESIS

This thesis is submitted to fulfill part of the requirements for obtaining a Bachelor of Accounting degree.

By:

LAILA APRILLIA
NPM 22101082140

UNIVERSITY OF ISLAM MALANG
FACULTY OF ECONOMICS AND BUSINESS
ACCOUNTING STUDY PROGRAM

2025

ABSTRACT

The golas of this research are: 1) Being aware of how environmental affect the firm value enterprises included in the 2021-2023 ESG Leader index, 2) Being aware of how social affect the firm value enterprises included in the 2021-2023 ESG Leader index, 3) Being aware of how governance affect the firm value enterprises included in the 2021-2023 ESG Leader index. Company value is one aspect that can be influenced by environmental, social, governance. Through a quantitative approach, using a purposive sampling technique, this study selected 18 company's as a sample from the population of 44 company's that were part of ESG Leader index 2021-2023. Acoording to the research social and governance factors significantly positive on firm value, whereas environmental factors significantly negative on firm value. In order to boost stakeholder's trust, comapny's that have the incorporated ESG elements can provide sustainability reports accurately and be verified for correctness.

Keywords : Environmental, Social, Governance, Firm Value.

ABSTRAK

Tujuan penelitian ini adalah: 1) Menyadari bagaimana pengaruh environmental *terhadap nilai perusahaan perusahaan yang termasuk dalam indeks ESG Leader 2021-2023, 2) Menyadari bagaimana pengaruh* social *terhadap nilai perusahaan perusahaan yang termasuk dalam indeks ESG Leader 2021-2023, 3) Menyadari bagaimana* governance *berpengaruh terhadap nilai perusahaan perusahaan yang termasuk dalam indeks ESG Leader 2021-2023. Nilai perusahaan merupakan salah satu aspek yang dapat dipengaruhi oleh* environmental, social, governance*. Melalui pendekatan kuantitatif dengan teknik purposive sampling, penelitian ini memilih 18 perusahaan sebagai sampel dari populasi 44 perusahaan yang tergabung dalam indeks ESG Leader 2021-2023. Berdasarkan penelitian faktor* social *dan* governance *berpengaruh positif signifikan terhadap nilai perusahaan, sedangkan faktor* environmental *berpengaruh negatif signifikan terhadap nilai perusahaan. Untuk meningkatkan kepercayaan pemangku kepentingan, perusahaan yang memasukkan elemen-elemen ESG dapat memberikan laporan keberlanjutan secara akurat dan diverifikasi kebenarannya.*

Kata Kunci : Environmental, Social, Governance*, Nilai Perusahaan.*

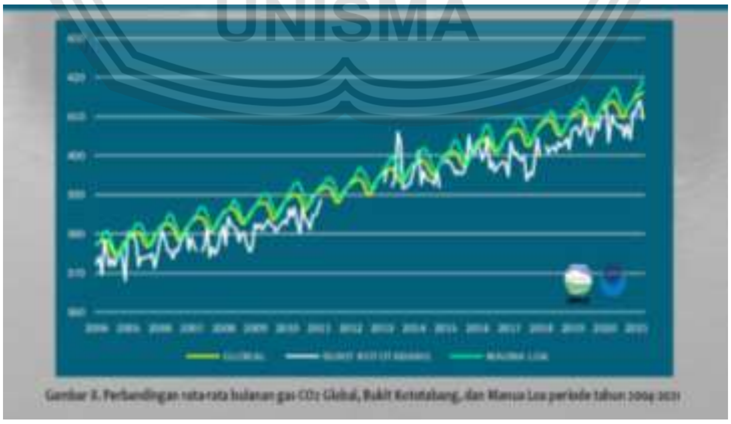
CHAPTER I

INTRODUCTION

1.1 Background

In today's modern era, society faces many environmental and social challenges such as environmental degradation, decreased implementation of social values and corporate law violations. The main environmental problem currently being faced by society globally is global warming. Global warming refers to a phenomenon in which the atmosphere, oceans, and land experience an increase in temperature (Hilwa & Sihar, 2021). According to BMKG (2021), global warming occurs due to greenhouse gas emissions, where these emissions are mainly triggered by human activities. Greenhouse gas emissions include carbon dioxide (CO_2), nitrogen dioxide (NO_2) methane (CH_4), and freon (CFC).

Figure 1. 1 Greenhouse Gas Emission Conditions in 2004-2021



Data source: *BMKG*, 2021

Based on the graph, from 2004 to 2021, greenhouse gases showed an increase in emissions every year, both at the global and national levels. The highest greenhouse gas emissions were in 2020-2021. The increase in CO2 concentration in Indonesia is lower than the global average. According to the Ministry of Environment and Forestry (2018), Indonesia continues to strive to reduce the occurrence of global warming which will have an impact on human life in the future. The existence of the global warming phenomenon also makes people push the demand to create more environmentally and socially responsible business practices.

Global warming has increased public awareness of the importance of preserving the environment and increased efficiency towards social responsibility. This is evident through various community social movements such as, Bike to work, Coin a Change, plastic bag diet and so on. With the existence of social awareness in the community, in addition to affecting their daily lives, it can also affect the way they invest. Investors who initially only considered the aspect of financial returns when investing now they also consider how a company's responsibility towards environmental.

Figure 1. 2 Average Hourly Wages of Workers by Gender in 2015-2023

Data source: Goodstats, 2024

Based on the graph, from 2015 to 2023 it provides information that's men,s wages are always higher than women's. This gap occurs due to employment discrimination, devaluation of woman's work, and other things, even though women complete the same level of education as man but are still paid less (Economic Policy Institute in the Rahmatillah article, 2024). With this salary gap, companies are expected to be able consider their responsibilities towards social aspects, because this aspects is also a concern in the eyes of investors.

Figure 1. 3 Number Corruption Cases in the Indonesia by Sector in 2023

Nama Sektor	Jumlah Korupsi
Desa	187
Pemerintah	108
Utilitas	103
Perbankan	65
Pendidikan	59
Kesehatan	44
Sumber daya alam	39
Agraria	29
Sosial kemasyarakatan	28
Kepemiluan	17
Kepemudaan dan olahraga	14
Transportasi	14
Kebencanaan	14
Telekomunikasi dan informasi	13
Perdagangan	13
Keagamaan	11
Peradilan	11
Kebudayaan dan pariwisata	9
Administrasi kependudukan	8
Investasi dan pasar modal	2
Pertahanan dan keamanan	1
Tidak diketahui	2

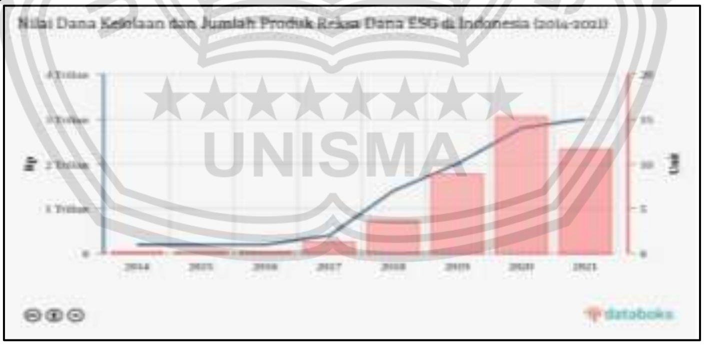
Data source: Databoks, 2024

According to this figure, it will be see that corruption cases by sector in Indonesia reached 791 cases. The high number of corruption cases is a form of company failure in its governance. With this high level of cases, investors are increasingly considering how companies are responsible for aspects of their governance.

According on the data presented previously, it can be concluded that investors now not only consider financial aspects but also pay attention to the company's responsibility towards environmental, social and governance aspects.

Environmental, Social, and Governance (ESG) is standard for companies on carrying out investment practices. Every company is required to carry out policies that still consider environmental, social and quality governance aspects (Noviarianti, 2020). In this condition, companies that successfully implement best practices for the environment and social directly make the company contribute to minimizing carbon emissions and pollution (Imron & Taswiyah, 2022). The products or services produced by these companies also tend to be more environmentally friendly. This is in line with Indonesia's ongoing efforts to tackle global warming, which in turn can influence the decisions of today's investors who consider ESG.

Figure 1. 4 Managed Fund Value of ESG Mutual Funds in Indonesia 2014-2021



Data source: *Databoks*, 2022

Practices that pay attention to ESG aspects in various companies have become a trend among investors, making the growth of environmentally friendly investments increase every times. The condition can be see on previously presented figure regarding value from managed funds sourced from ESG mutual funds. The graph indicates that ESG investments are increasing from year to year even though in 2021 there was a decline. ESG is because of the higher level public awareness of environmental and social issues. Businesses that have modern thinking will realize that the implementation of ESG practices in the company is increasingly important in every operational activity carried out (Prudential Indonesia, 2023).

The Indonesia Stock Exchange (IDX) has also taken various actions to support the implementation of Environmental, Social, and Governance (ESG) practices in each company so that they are carried out properly. One of the actions taken by the IDX is to launch the IDX ESG Leader Index or ESG Leader Index in 2020 (CNBC Indonesia, 2020). The index contains shares of companies that have the best Environmental, Social, and Governance (ESG) ratings. The existence of this index is a form of IDX appreciation for companies that have a high commitment to ESG implementation. Companies that are members of this index generally have a good reputation and public trust, so that in the end they have the opportunity to increase company value.

According to Yulianto (2020), investors perception of a company is known as its firm value. Firm value is a reflection of how investors evaluated the companies performance and future prospects based on a number of factors, including the current trend of using ESG principles. The application of ESG principles in the firm is the right strategy, because in this addition for improving the companies good image, it is will also have a positive impact on the firm's value in the eyes of investors (Delvina &

Hidayah, 2023). According to Melinda & Wardani (2020), there is a favorable correlation between companies value and ESG.

A deeper understanding of the application of ESG principles that contribute of the value company also needs for be considered each aspect separately. Environmental, social and governance aspects has different roles but the three aspects complement each other to shape investors' view of the firm.

Previous research that examines the effect for ESG on the firm value provides mixed founds. Based to Christy & Sofie (2023), show the environmental and social disclosure does not have a positive significantly affect on the company value, while Governance have positive significantly affect. Melinda & Wardhani (2020), show the ESG have a positive relationship. Furthermore, in research conducted by Hariyanto & Ghozali (2024), it states that the social disclosure score have positive significantly value on the company value, while the environmental disclosure scores and governance disclosure scores has not affect on the firm value.

The diversity of results in previous studies has encouraged researchers want to research with title **"The Effect of Environmental, Social, and Governance on Firm Value (Case Study on Companies Listed in the ESG Leader Index for the 2021-2023 Period)",** which tests whether Environmental, Social, and Governance have an impact on the firm value, especially for companies listed in the ESG Leader index for the 2021-2023 period. By conducting this research, it is hoped that it can provide new knowledge about the impact of environmental, social, and governance on the firm value, whether it supports or contradicts previous research. The study raises population is all company's included on the ESG Leader index to the period 2021-2023, because according to Adityawati (2021), which states that the ESG assessment conducted by Sustainalytics shows an increase from 2021 in the movement and growth of the ESG Leader index, Thus, its hopefully that this study findings will be more patient and provide new knowledge, especially on the importance of ESG for a firm to affect value.

1.2 Problem Formulation

According on background description that have a submitted, the researcher concludes several problem of formulations as guidelines for the next stage of preparation. The problem of formulations in this research are as follows:

1. Does Environmental affect firm value in companies listed on the ESG Leader index for the 2021-2023 period?
2. Does Social affect firm value in companies listed on the ESG Leader index for the 2021-2023 period?
3. Does Governance affect firm value in companies listed on the ESG Leader index for the 2021-2023 period?

1.3 Research Objectives and Benefits

1.3.1 Research Objectives

Based on the background and problem formulation above, the objectives of this study are as follows:

1. Knowing the impact of environmental on the firm value in company's included on ESG Leader index for the 2021-2023 period.
2. Knowing the impact of social on the firm value in company's included on ESG Leader index for the 2021-2023 period.
3. Knowing the impact of governance on the firm value in company's included on ESG Leader index for the 2021-2023 period.

1.3.2 Research Benefits

The research has theoretical and practical benefits. Practical benefits are benefits that can be applied directly in practical life in the field, while theoretical benefits are benefits that can add or develop academic knowledge or can be used as a reference for further research.

1. Practical Benefits
   a. For the firms

      The results of this study are expected to provide input and information for companies in managing and implementing Environmental, Social, and Governance (ESG) practices in their business practices, in order to build a sustainable and responsible firm profile in the long term.

b. For investors

This research can be used as a medium to assist investors in understanding the relationship between good Environmental, Social and Governance (ESG) practices and firm performance. Thus, investors can decide to invest in an informative and sustainable manner.

c. For the government

The government can use the research results as a basis for formulating regulations that support Environmental, Social, and Governance (ESG) practices. Because with the right regulations, it will encourage companies to always implement sustainable and responsible business practices.

d. For the community

With this research, people can use the research results as literacy related to the importance of Environmental, Social, and Governance (ESG) practices in a firm for the environment and social community at large.

2. Theoretical Benefits

For further research, the results of this study are expected to be used for input or references related to research that deepens understanding related to stakeholder theory and signaling theory, especially on the influence of Environmental, Social, and Governance (ESG) on firm value. This research can also be used as literacy in related courses such as good corporate governance, financial management and business ethic.

CHAPTER V
CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

The study objectives for provide empirical data on affect environmental, social, and governance on the firm value. Companies listed on the ESG Leader index consecutively in 2021-2023 were sampled in this study.

Based on the results of research that has been carried out with various series of processes starting from the data collection process, the data processing process, the data analysis process, and the process of interpreting the founds of analysis related to environmental, social, and governance on firm value. Then the following conclusions can be drawn:

1. Environmental have significantly negative affect on the value of firms included in ESG Leader index in the current period, namely 2021-2023. This shows that an increase or decrease in environmental aspects will affect the firm's value.
2. Social have significantly positive affect on the value of firms included in ESG Leader index in the current period, namely 2021-2023. This shows that an increase or decrease in social aspects will affect the firm's value.
3. Governance have significantly positive affect on the value of firms included in ESG Leader index in the current period, namely 2021-2023. This shows that an increase or decrease in the governance aspect will affect the firm's value.

5.2 Limitations

The research certainly have a limitations then is far from perfect, the following are the limitations that exist in this study:

1. The sample used only focuses on companies that are consecutively listed in the ESG Leader index in the 2021-2023 period. This limitation occurs because this index only contains 30 companies each period and these 30 companies are not always listed in the ESG Leader index consecutively. So it can be concluded that the sample used is still small.
2. The observation period is still short, namely for 3 years (2021-2023), so it does not yet reflect the situation in the long term.
3. The contribution of independent variables still low on explaining dependent variable, which means that there are still variables outside this study that are able to provide an explanation of the dependent variable.

5.3 Suggestions

According on the research results that have a described, the suggestions submitted from this research are as follows:

1. Based on the limitations of this study, future study is expected to using wider number samples in study, increase the research period, use other variables related to ESG and firm value. The addition

aims to make the research conducted can provide broader information.

2. Companies that have implemented environmental, social and governance aspects in their sustainability reports, it is hoped that the data presented regarding the application of ESG is accurate and can be checked for accuracy. So that with the existence of accurate and verifiable information, it will increase the trust of stakeholders.

REFERENCE

Alareeni, B.A. and Hamdan, A. (2020). *ESG Impact on Performance of US S&P 500-Listed Firms*, Corporate Governance, Vol. 20 No. 7, pp. 1409-1428. https://doi.org/10.1108/CG-06-2020-0258.

Adityawati, A. (2021). *Mendorong Ekonomi Hijau Melalui Investasi ESG*. Dari website detik. com. https://www.detik.com . Diakses pada 8 November, 2024

Badan Meteorologi, Klimatologi, dan Geofisika. (2021). *Buletin Gas Rumah Kaca*. Vol-01 No-01. Dari website BMKG. https://iklim.bmkg.go.id/publikasi-klimat/ftp/buletin/2021/BULETIN%20GAS%20RUMAH%20KACA%20Vol-01%20No-01.pdf. Diakses pada 1 November, 2024

CNBC Indonesia TV, (2020). *BEI Resmi Luncurkan Indeks IDX ESG Leader*. Dari website CNBC Indonesia. https://www.cnbcindonesia.com/market/20201223112301-19-211134/bei-resmi-luncurkan-indeks-idx-esg-leaders . Diakses pada 6 November, 2024

Christy, E & Sofie. (2023). *Pengaruh Pengungkapan Environmental, Social, dan Governance Terhadap Nilai Perusahaan*. Trisakti Economic Journal, 3(2), 3899-3908. https://doi.org/10.25105/jet.v3i2.18233

Donaldson, T., & Preston, L. E. (1995). *The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications*. The Academy of Management Review, 20(1), 65 https://doi.org/10.5465/amr.1995.9503271992

Delvina, E. M., & Hidayah, R. (2023). *The Effect of ESG (environmental, social and governance) Performance on Company Value and Company Performance*. Management Studies and Entrepreneurship Journal (MSEJ), 4(5), 5436-5444. https://doi.org/10.37385/msej.v4i5.2903

Ghozali, I. (2021). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 26 Edisi 10*. Badan Penerbit Universitas Diponegoro.

Global Reporting Initiative. (2021). *GRI Standards: Consolidated set 2021*.

Global Reporting Initiative. (2016). *GRI Standards: 2016*.

GoodStats. (n.d.). *Potret kesenjangan gender di Indonesia: Upah pekerja perempuan 17% lebih rendah dari laki-laki.* (2024). https://data.goodstats.id/statistic/potret-kesenjangan-gender-di-indonesia-upah-pekerja-perempuan-17-lebih-rendah-dari-laki-laki-KxpbG. Diakses pada 20 Januari, 2025.

Hariyanto, D. B., & Ghozali, I. (2024). *Pengaruh Environment, Social, dan Governance (ESG) Disclosure Terhadap Nilai Perusahaan (Studi Empiris pada Perusahaan yang Terdaftar dalam Indeks Kompas 100 Periode 2020-2022)*. Diponegoro Journal of Accounting, 13(3). https://ejournal3.undip.ac.id/index.php/accounting/article/view/46057

Husada, E.V, & Handayani, S. (2021). *Pengaruh pengungkapan ESG Terhadap Kinerja Keuangan Perusahaan (Studi Empiris Pada Perusahaan Sektor Keuangan Yang Terdaftar Di Bei Periode 2017-2019)*, *Jurnal Bina Akuntansi,* 8 (2), 122-144. https://doi.org/10.52859/jba.v8i2.173

Imron, A., & Taswiyah, T. (2022). *Green Human Resource Management dalam Dunia Industri (Kajian Empiris dan Teoritis dalam Implementasi Green Hrm)*. Journal of Research Innovation, 3(6), 6799-6806. https://doi.org/10.47492/jip.v3i6.2147

Inawati, W. A., & Rahmawati, R. (2023). *Dampak Environmental, Social, and Governance (ESG) Terhadap Kinerja Keuangan. Jurnal Akademi Akuntansi*, 6(2), 225-241. https://doi.org/10.22219/jaa.v6i2.26674

Johan & Toti, G. K. (2022). *The Effect of Environmental, Social, Governance (ESG) Disclosure on Company's Profitability & Value in the SRI-KEHATI INDEX 2015-2020. Business & Management Research Media*, 22(1), 35-48. https://e-journal.trisakti.ac.id/index.php/mrbm/issue/view/1033

Kementrian Lingkungan Hidup dan Kehutanan. (2018). *Mengukur dan Reduksi Gas Rumah Kaca*, dari website KLHK. http://perpustakaan.menlhk.go.id/pustaka/home/index.php?newsid=474&page=detail_news. Diakses pada 3 November, 2024

Katadata. (n.d). *Ini Tren Investasi ESG di Indonesia Sampai 2021*, dari website databoks. https://databoks.katadata.co.id/pasar/statistik/86e36051a02353c/ini-tren-investasi-esg-di-indonesia-sampai-2021. Diakses pada 6 November, 2024

Katadata. (2023). *Ada 791 kasus korupsi di Indonesia pada 2023, terbanyak di desa*, dari website databoks. https://databoks.katadata.co.id/ekonomi-makro/statistik/517494e433c6cdf/ada-791-kasus-korupsi-di-indonesia-pada-2023-terbanyak-di-desa. Diakses pada 20 Januari, 2025.

Kartika, F., Dermawan, A., & Hudaya, F. (2023). *Pengungkapan Environmental, Social, Governance (ESG) dalam Meningkatkan Nilai Perusahaan Publik di Bursa Efek Indonesia*. SOSIOHUMANIORA: *Jurnal Ilmiah*

Ilmu Sosial dan Humaniora, 9(1), 29-39. https://doi.org/10.30738/sosio.v9i1.14014

Kaplale, Y. S., Murni, Y., & Ani, S. M. (2023). *Pengaruh Environmental Disclosure, Social Disclosure dan Mekanisme Governance Terhadap Nilai Peruahaan (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2018-2020). Jurnal Ilmiah Administrasi Publik*, 3 (2), 163-177. https://doi.org/10.35814/jiap.v3i2.4033

Melinda, A., & Wardhani, R. (2020). *The Effect of Environmental, Social, Governance, and Controversies on Firms' Value: Evidence from Asia.* 27, 147-173. https://doi.org/10.1108/S1571-038620200000027011

Mercyana, C., Hamidah and Kurnianti, D. (2022). *Pengaruh Struktur Modal, Profitabilitas, Ukuran Perusahaan dan Likuiditas Terhadap Nilai Perusahaan Infrastruktur yang Terdaftar di Bursa Efek Indonesia Periode 2016-2020. Jurnal Bisnis, Manajemen, dan Keuangan*, 3(1), pp. 101-113. http://repository.unj.ac.id/id/eprint/22446

Noviarianti, K. (2020). ESG: *Definisi, Contoh, dan Hubungannya dengan Perusahaan*. Dari website CESGS. https://www.cegs.or.id/2020/12/29/apa-itu-esg/. Diakses pada 5 November, 2024

Ningwati, G., Septiyanti, R., & Desriani, N. (2022). *Pengaruh Environment, Social dan Governance Disclosure Terhadap Kinerja Perusahaan. Goodwood Akuntansi dan Auditing Review*, 1(1), 67-78. https://doi.org/10.35912/gaar.v1i1.1500

Prabawati, P. I., & Rahmawati, I. P. (2022). *The Effect of Environmental, Social, and Governance (ESG) Scores on Firm Value in Asean Member Countries. Jurnal Akuntansi dan Auditing Indonesia.* https://doi.org/10.20885/jaai.vol26.iss2.art2

Prayogo, E., Handayani, R., & Meitiawati, T. (2023). *ESG Disclosure dan Rentetion Ratio terhadap nilai perusahaan dengan Ukuran Perusahaan sebagai Pemoderasi.* 7(2). https://doi.org/10.18196/rabin.v7i2.18212

Prudential Indonesia. (2023). *What is ESG?*. Dari website Prudential Indonesia, https://www.prudential.co.id/id/pulse/article/apa-itu-esg/. Diakses pada 2 November, 2024

Qodary, H. F., & Tambun, S. (2021). *Pengaruh Environmental, Social, Governance (ESG) dan retention ratio Terhadap Return Saham dengan Nilai Perusahaan Sebagai Variabel Moderating. Juremi: Journal of*

Economic Research, 1(2), 159-172. https://doi.org/10.53625/juremi.v1i2.266

Safriani, M. N., & Utomo, D. C. (2020). *Pengaruh environmental, social, governance (ESG) disclosure terhadap kinerja perusahaan*. *Diponegoro Journal of Accounting*, *9*(3). https://ejournal3.undip.ac.id/index.php/accounting/article/view/29093

Spence, M. (1973). *Job Market Signaling. The Quarterly Journal of Economics*, 355-374

Sugiyono. (2019). *Metode Penelitian Kuantitatif, Kualitatif, dan Rnd*. Penerbit Alfabeta Bandung

Sujarweni, F. W., & Utami, L. R. (2019). *The Mater Book of SPSS*. Alfabeta Publisher Bandung

Shakil, M. H. (2021). *Environmental, Social and Governance Performance and Financial Risk: Moderating Role of ESG Controversies and Board Gender Diversity*. Resources Policy, 72, 102144. https://doi.org/10.1016/j.resourpol.2021.102144

Suretno, F., Adrianto, F., & Alfarisi, M. F. (2022). *Effect of Environment, Social and Governance Disclosure on Firm Value. JBTI: Journal of Business: Theory and Implementation*, 13(2), 121-128. https://doi.org/10.18196/jbti.v13i2.14458

Yulianto, W. (2020). *Analisis Faktor-Faktor yang Mempengaruhi Nilai Perusahaan. Jurnal Paradigma Akuntansi*, 2(2), 576-585