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THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE DISCLOSURE ON STOCK PERFORMANCE

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ABSTRACT
This research aims to evaluate the effect of environmental, social, and governance (ESG) performance disclosure on the stock performance of companies listed on the Indonesia Stock Exchange (BEI) during the 2018-2022 period, using the price earning ratio (PER) as an indicator of stock performance. The research population includes companies listed on the IDX with ESG scores from the Thomson Reuters Eikon Database during the period studied. The research sample of 190 companies was selected using a purposive sampling technique. The data analysis method used is Panel Data Regression Analysis with the help of STATA 14 for Windows software. The research results show that environmental performance partially has a positive and significant influence on stock performance, while social and governance performance has no significant influence. Simultaneously, environmental, social, and governance performance variables influence the company's stock performance. This research implies that companies on the IDX can improve their stock performance by paying attention to environmental performance aspects. Even though social and governance performance does not partially show a significant influence, attention to these three aspects can improve overall stock performance. These findings provide insight to practitioners, regulators, and investors regarding the importance of ESG disclosure in the context of the Indonesian capital market.

Keywords: Environmental Performance, Social Performance, Governance Performance, ESG, Stock Performance.

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INTRODUCTION

In America, investor interest in the value of sustainability in social responsibility processes is growing (Leite & Uysal, 2023). According to Morningstars, net flows to ESG-oriented corporate funds totaled 21.4 billion US Dollars (USD) in 2019, bringing total assets in this category to almost 140 billion USD by the end of the year. This growth reflects a fourfold increase in net flows and assets from 2018 compared to the previous five years (Morningstar.com in Leite & Uysal, 2023). Therefore, investors' positive effect on companies with ESG characteristics is attractive and can influence stock performance. Preference for companies considered to care about ESG can also influence positive or negative financial information about that company. In this case, investors see ESG-oriented companies as providing positive confirmation of the company so that it can influence investment decisions.

In Indonesia, in particular, the sustainability reporting of companies listed on the Indonesia Stock Exchange (BEI) has increased in the last two years, where as of December 30, 2021, there were 154 listed companies or around 20% of the total listed companies issuing and reporting shares—sustainability (sustainability report). Furthermore 2020, sustainability reporting increased by 285%, whereas in 2019, only 54 listed companies reported sustainability reports via SP-IDXNet (Delloite, 2022).

Sustainability reporting has become very important because of the increasing demand for information from investors globally and domestically regarding implementing Environmental, Social, and Governance (ESG) in company business operations. The results of a survey by the Indonesian Stock Exchange (BEI), together with the Asian Exchanges on Indonesian investors in 2022, show several problems faced by investors. These include the limited availability of ESG information that the general public can access, the low level of readiness of companies to integrate ESG aspects into their internal structures, and challenges in collecting data with uniform information standards.

At the end of 2021, the Indonesia Stock Exchange (BEI) launched several new stock indexes, including a stock index focusing on Environmental, Social, and Governance (ESG). Two indexes that attract attention are the IDX KEHATI ESG Sector Leader Index and the IDX KEHATI ESG Quality 45 Index. SRI-Kehati, an abbreviation of Sustainable and Responsible Investment (SRI) and the Indonesian Biodiversity Foundation (KEHATI), is a collection of shares from companies that are not only concerned with short-term profits but also pay attention to environmental sustainability. BEI issued this stock index on June 8, 2009. The SRI-Kehati index consists of 25 companies that undergo a selection process every two periods, namely April and October each year, and the results are published on the BEI and KEHATI websites.

SRI is a guideline used in corporate governance arrangements, while KEHATI is responsible for publishing the SRI-Kehati Index. The SRI-Kehati Index is an indicator or picture of stock price movements that guide investors regarding shares from companies that consistently perform excellently in implementing the principles of good corporate governance. Apart from that, these companies are also aware of environmental (planet) sustainability, are committed to empowering local communities, and continue to follow business ethics.

Figure 1. Performance of the Sri Kehati Index
Source: khaki.or.id

The graph illustrates that the SRI-KEHATI index shows a positive trend, as can be seen from its performance, which every year is consistently above the IDX 30 index, which is in second place, and then followed by the LQ45 index, which is in the next position. Reasonable share prices are also related to the investments made by shareholders. The Indonesian Minister of Finance also expressed that 2023 will be a big challenge for Indonesia to maintain economic growth above five percent with all the challenges of the current global situation and conditions. ESG is a standard for companies in implementing their investments, emphasizing environmental, social, and corporate governance principles. Therefore, companies included in this index emphasize investments in environmental sustainability, community empowerment, and sound and sustainable internal management processes.

There is research related to SRI-Kehati (Putra & Adrianto, 2020), which carries out Corporate Governance Analysis in Sustainable and Responsible Investment (SRI) Companies. Companies that use SRI generally have better sustainability and quality of corporate governance than non-SRI companies. However, research (Suretno et al., 2022) explains that only governance has a significant negative influence on company value, while environmental and social factors have a significant positive relationship with company value.

International organizations, government sectors, and institutions are currently fully supporting the global sustainable economy. The United Nations Sustainable Stock Exchange Initiative (SSE) collaborates with stock exchanges to enhance sustainable economies (Aydoğmuş et al., 2022). According to data from the United Nations Sustainable Stock Exchange Initiative (SSE), 66 out of 120 member stock exchanges publish ESG reports of companies (Aydoğmuş et al., 2022).

Currently, stakeholders hope that companies can manage the impact of their business operations by becoming environmentally friendly, having good governance, and having social responsibility, especially for large companies that use more significant resources. Companies must carry out activities in a sustainable manner to meet the expectations of stakeholders. In recent years, a new trend has emerged. It is gaining popularity among investors by considering environmental, social, and corporate governance factors in measuring a company's performance (Putra & Adrianto, 2019).

Non-financial information disclosure is intended as a social investment to meet stakeholders' interests, which can help improve company performance later. Sustainability efforts carried out by companies attract the attention of company stakeholders, thereby creating greater demand and development for the company (Sabrina & Lukman, 2019). Menurut (La Torre et al., 2020) ESG dapat berpengaruh kepada return hanya di beberapa perusahaan yang berada pada sektor energi dan utilitas. Hasil ini dapat dikaitkan dengan peran aktif perusahaan–perusahaan tersebut beroperasi di sektor-sektor mana investasi ESG memiliki relevansi yang signifikan terhadap profitabilitas perusahaan. Therefore, to meet the demands of stakeholders, the company provides financial and non-financial information. One known factor is stock performance. Stock performance is a measurement of the achievements achieved by managing company shares and can reflect the health condition of the company. The existence of a rights issue can cause an increase in the number of shares circulating in the public. The stock performance can be seen in stock returns and abnormal returns.

Disclosure of the Sustainability Report significantly impacts company performance (Sabrina & Lukman, 2019). The stock price expected by investors is a stable stock price with a movement pattern that tends to increase from time to time. Apart from that, investors certainly expect a return or reciprocal profit on their invested funds. Companies with good ESG performance have generally been operating for more than 18 years due to high sustainability capabilities and a wide market, and the company's work capacity has grown significantly (Putra & Adrianto, 2019). Therefore, researchers use the ESG score of a company as the dependent variable and stock performance as the independent variable. Several previous studies related to the influence of ESG on stock prices (Aditama, 2022) and research (Qodary & Tambun, 2021). Research (Tryono & Junarsin, Eddy SE, MBA, 2018) explains that only the environmental score influences stock returns, while social and governance aspects influence stock returns. However, it differs from research (Qodary & Tambun, 2021), where environmental, social, and governance factors do not affect stock returns. Therefore, the author uses stock performance as an independent variable to expand research on the influence of environmental, social, and governance factors on stock performance.

METHOD

This research aims to determine the effect of environmental, social, and governance (ESG) disclosure on stock performance. This type of research uses quantitative causal data because it considers numbers. Furthermore, this research is non-experimental because it is under normal conditions (no intervention), and the main aim is to describe the problem or explain the relationship between variables (descriptive). Descriptive research is a method intended to describe events that are still happening now or in the past. The data collection method in this research is the non-participant observation method. The non-participant observation method is a research method in which the researcher is not directly involved because the researcher is only an independent observer (Sugiyono, 2017).

The sample was selected using the purposive sampling method. Purposive sampling is a non-random sampling technique with particular criteria so that not all companies listed on the Indonesia Stock Exchange from 2018-2022 can be used as samples in this research. The criteria used in selecting samples are as follows:

1. Companies listed on the Indonesia Stock Exchange (BEI) during 2018-2022;
2. The company publishes financial and annual reports for the 2018-2022 period on the Indonesia Stock Exchange website or the company's official website.
3. The company discloses its Environmental, Social, and Governance (ESG) performance in its annual or sustainability report and has ESG Score data for 2018-2022.

RESULTS AND DISCUSSION

This time, the sample used as the research object is companies listed on the Indonesia Stock Exchange for the 2018-2022 period, which have environmental, social, al, and governance scores. The technique used to return samples for this research is purposive sampling. Based on these criteria, a research sample of 38 companies was obtained. Thus, the number of observations in this research was 190 observations. The data that has been collected is then processed using STATA 14 for Windows by applying panel data regression analysis. The following is a description of the results of this research data analysis.

Descriptive Analysis Results

Table 1. Descriptive Analysis

Variables	Obs	Mean	Std. Dev.	Min	Max
env	190	45.54137	22.30553	.1744186	87.72983
SOC	190	61.60762	21.22433	12.0239	96.01648
gov	190	53.67879	22.9867	2.977333	94.01335
fs	190	32.07176	1.233885	29.44556	35.22819

Variables	Obs	Mean	Std. Dev.	Min	Max
fl	190	8580398	1.361756	.0005768	12.95244
per	190	12.27493	63.01058	-807.2244	141.1775

From the table above, it can be seen that the amount of data used was 190 samples; it can be concluded,

a. The environmental score variable has a mean of 45.54137, a standard deviation of 22.30553, the smallest value of 0.1744186, and the largest value of 87.72983
b. The social score variable has a mean of 61.60762, a standard deviation of 21.22433, the smallest value is 12.0239, and the largest value is 96.01648
c. The governance score variable has a mean value of 53.67879, a standard deviation of 22.9867, the smallest value of 2.977333, and the largest value of 94.01335
d. The firm size control variable has a mean value of 32.07176, a standard deviation of 1.233885, the smallest value of 29.44556, and the largest value of 35.22819
e. The firm leverage control variable has a mean value of 0.8580398, a standard deviation of 1.361756, the lowest value of 0.0005768, and the largest value of 12.95244
f. The Price Earning Ratio (PER) variable has a mean value of 12.27493, a standard deviation of 63.01058, the smallest value is -807.2244, and the largest value is 141.1775

Multicollinearity Test

Table 2. Multicollinearity Test

Variables	VIF	1/VIF
soc	2.26	0.443021
gov	1.74	0.574028
env	1.61	0.620264
fs	1.12	0.894204
f1	1.02	0.981989
Mean VIF	1.55	

Based on the results of the multicollinearity test above, it can be seen that all variables in this study have a VIF value < 10. Not only that, the Mean VIF value for this study also has a value < 10, namely 1.55. Thus, the model above does not experience multicollinearity problems.

Heteroscedasticity Test

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Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of y

         chi2(1)      =     0.42
         Prob > chi2  =   0.5157
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Figure 2. Heteroscedasticity Test Results

From the results of the heteroscedasticity test above, it can be seen that (Prob > chi2) is 0.5157, meaning it has a value greater than the research Alpha determination of 0.05. Thus, it can be concluded that there is no heteroscedasticity problem.

Best Regression Model Selection Test

In determining the best research regression model, the Chow, Hausman, and Lagrange multiplier tests must be carried out. These three tests were conducted to determine whether the suitable model for this research was a fixed, random, or standard effect model. The best research model is determined, which can be seen from the Chow test, Lagrange multiplier test, and Hausman test results. Based on the results of the Chow test, the best model is the Fixed Effect Model (FEM). Next, the Random Effect Model is the correct model for the Hausman test results. Next, based on the Lagrange multiplier test, the appropriate model is the Random Effect Model.

Linear Regression Test

Linear regression testing functions to determine the influence between variables. This test is carried out to get an answer to whether the hypothesis is accepted or rejected. If the z values show a value above 1.96, it can be concluded that there is an influence between the dependent and independent variables.

Table 3. Linear Regression UI Results

per	Coef.	Std. Errr.	z	P>|z|	[95% Conf.	Intervals]
env	.2154897	1023656	2.11	0.035	.0148568	4161226
50C	.0667999	2322262	0.29	0.774	-3883551	5219548
gov	-.0261191	.1585575	-0.16	0.869	-3368861	2846479
fl	-.0653309	0525021	-1.24	0.213	-.1682331	.0375712
fs	-3.806497	2.758615	-1.38	0.168	-9.213282	1.600289
cons	6.39355	4.070977	1.57	0.116	-1.585419	14.37252

Hypothesis Results

Table 4. Hypothesis Testing Results

Hypothesis	Test result	Conclusion
H1: Environmental performance significantly affects stock performance in companies listed on the Indonesia Stock Exchange.	Environmental performance has a significant positive effect on stock performance in companies listed on the Indonesia Stock Exchange.	H1: Accepted
H2: Social performance has a significant positive effect on stock performance in companies listed on the Indonesia Stock Exchange	Social performance does not affect stock performance in companies listed on the Indonesian Stock Exchange.	H2: Rejected
H2: Governance performance has a significant positive effect on stock performance in companies listed on the Indonesian Stock Exchange	Governance performance does not affect the performance of company shares listed on the Indonesia Stock Exchange.	H3: Rejected

Based on the results of panel data regression analysis, there are three research results which will be explained as follows:

Environmental performance has a significant positive effect on stock performance in companies listed on the Indonesia Stock Exchange

The first research result is that environmental performance (EP) has a positive and significant influence on the dependent variable of this research, namely stock performance. Thus, this explains that the higher the environmental score a company has, the higher the performance of the company's shares. These results are not in line with research conducted by (Tryono & Junarsin, Eddy SE, MBA, 2018), and Tambun, 2021), which explains that companies that have better environmental performance do not influence company stock returns. However, in the research conducted by (He et al., 2023) and (Naeem et al., 2022) it is shown that environmental scores affect stock performance.

According to (Qodary and Tambun, 2021), the existence of public awareness of the environment has made environmental, social, and governance (ESG) based investment a trend in investing in recent years. The influence of sustainability report disclosures on company financial performance has been researched by (Wijayanti, 2018), explaining that sustainability report disclosures affect company profitability. However, only the environmental dimension affects liquidity. Apart from that, research (Syafrullah & Muharram, 2017) shows that environmental performance does not have a significant effect but has a positive effect on abnormal returns. Based on stakeholder theory, companies need to improve their sustainability performance, one of the supporting factors that can be seen from the environmental performance demonstrated by the company.

Social performance does not affect stock performance in companies listed on the Indonesian Stock Exchange.

The results of the second research, namely that social performance (SP) has a positive but not significant effect or does not affect the research-dependent variable on the company's stock performance. Thus, this explains that the higher the social score, the company's stock performance will not increase. This research is in line with research (Aditama, 2022), where the social score has a positive and insignificant effect or has no effect on stock performance. However, this differs from research (Syafrullah & Muharram, 2017), where corporate social governance in Indonesia and Malaysia positively and significantly affects abnormal returns.

Research by Syafrullah & Muharram (2017) found that social disclosure significantly affected stock prices. Meanwhile, research (Tarigan & Semuel, 2014) on Analysis of the Influence of Environmental, Social Governance (ESG) Scores on Stock Returns Listed on the IDX30 Index shows that Environmental, Social, and Governance scores do not influence stock returns. Companies must increase investment and assets if they want to reduce and limit the amount of emissions released in their business processes. Melinda and Wardhani (2020) researched the ESG index and ESG controversy on company value, which showed that seen individually from ESG factors, Social factors had an impact on company value, and Social controversy positively influenced company value. This will affect the company's profitability so that it can influence investor decisions.

Good corporate governance can increase a company's success in achieving its goals. Investment decisions do not only depend on the profits obtained by the company. Nowadays, many investors prefer companies with good governance, for example, providing incentives and other social activities disclosed in the company's annual report. This can affect company performance so that stock performance will increase.

Governance performance does not affect the performance of company shares listed on the Indonesia Stock Exchange.

The third research result is that governance performance (GP) has a negative and insignificant effect or has no effect on the dependent variable of stock performance. Thus, this shows that the company's share performance decreases when the company implements good governance management. This research's results align with research by (Tryono & Junarsin, Eddy SE, MBA, 2018) and (Qodary & Tambun, 2021), where an increase in governance performance results in lower company stock performance. Unlike the research conducted by (Yawika & Handayani, 2019) and (Saldi, 2022) where ESG performance affects stock performance.

Good Corporate Governance is essential to increasing economic efficiency, covering a series of relationships between company management, board of directors, shareholders, and stakeholders. Applying the principles of good corporate governance will add value to the company to improve stock performance in the eyes of stakeholders. The theoretical theory states that the existence of corporate governance mechanisms can be used as a tool to help reduce potential conflicts.

Therefore, based on stakeholder and agency theories, making ESG disclosures, one of which is disclosure in corporate governance, can reduce the company's exposure to future risks, creating value for investors and other stakeholders. This is then related to the increasing confidence of investors and other stakeholders in the company. The principles of good corporate governance can encourage the formation of clean, transparent, and professional work patterns (Syafrullah & Muharram, 2017).

CONCLUSION

The conclusion of this research shows that environmental performance (EP) has a positive and significant influence on stock performance, indicating that companies that focus on environmental performance tend to have better stock performance. On the other hand, social performance (SP) also has a positive effect, although not significant, indicating that social aspects may positively impact stock performance, but further attention is needed to understand this relationship in more depth. Meanwhile, governance performance (GP) shows an insignificant negative effect on stock performance, indicating that corporate governance performance may not always be positively correlated.

The results of this research imply that companies can improve their stock performance by paying attention to environmental and social aspects. Focusing on environmental performance can be an effective strategy for increasing the company's value on the stock market. Even though social performance does not show statistical significance, its positive impact can signal that attention to corporate social responsibility can provide long-term benefits. Meanwhile, companies must be careful about governance performance because the results show that bad governance can hurt stock performance. Therefore, companies should continue to improve their internal governance to maintain and increase investor confidence and the performance of their shares.

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