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ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) AND COMPANY VALUE: AN FOOD AND BEVERAGE CASE STUDY

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ABSTRACT

Company value reflects the public's assessment of and trust in a company's performance. This study aims to test and analyze the influence of environmental, social, and governance (ESG) on corporate value in the food and beverage subsector listed on the Indonesia Stock Exchange for the 2020-2022 period with a total of 22 companies. A total of 66 samples were obtained through purposive sampling. The results show that the environmental disclosure variable has a lower influence on company value, whereas the governance disclosure variable has a significant positive influence. By contrast, the social disclosure variable has a negative and significant influence. This can reflect the optimization of a company's performance, especially related to social and environmental disclosures.

Keywords: Company Value, Environmental Disclosure, Social Disclosure, Governance Disclosure, ESG

1. INTRODUCTION

In the current era of globalization, progress in the business sector is a measure of a country's success. The food and beverage sector is an important manufacturing sector driving Indonesia's national economic growth. The food and beverage industry has consistently shown positive growth, characterized by increased productivity, investment, exports, and labor absorption (Marketeers, 2019). The strategic role of this sector can be seen from its consistent and significant contribution to the GDP of non-oil and gas industries.

Based on data obtained from the Central Statistics Agency (BPS), in 2020, the food and beverage subsector experienced a growth of 1.58%, in 2021 it was 2.54%, and in 2022 it was 4.9%. However, the positive trend in GDP growth is not in line with the development of the average share prices of companies in the food and beverage subsectors. The average share prices of the food and beverage subsectors fluctuated between 2020-2022. In 2021, the average share price decreased by IDR 2,888 compared with 2020, with an average share price of IDR 4,434. In 2022, the stock price increased again but insignificantly by IDR 3,028. This indicates that there is a problem with the share price of companies in the food and beverage subsector; therefore, efforts are needed to increase the company's share price in the subsector.

A company's stock price typically indicates its value (Indrarini, 2019). Company value is the selling value of a company that investors can afford to pay for company growth. A company's value reflects the public's assessment of its overall performance, which can be measured by examining stock prices in the market. The market value ratio can be used to measure investors' perceptions of a company's historical performance and prospects, thereby providing valuable information for management (Dzahabiyya et al., 2020).

Various indicators are used to measure a company's performance and value, one of which is Tobin's Q. Tobin's Q measures the comparison between the company's market value and the company's book value or the value of the company's assets. This indicator provides an idea of how valuable a company's assets are in the market compared to its book value. This assessment assumes that a Tobin's Q value above 1 indicates that the company's market value is higher than its book value, while a value below 1 indicates the opposite (Dzahabiyya et al., 2020).

A company's value can increase or decrease depending on various factors. Two financial factors affect a company's value: internal and external factors. Internal factors include capital structure, asset growth, and profitability, whereas external factors include inflation and currency exchange rates. In addition to financial factors, research also shows that non-financial factors, such as environmental, social, and governance (ESG) disclosures, can affect a company's value (Pasaribu et al., 2019).

Corporate environmental actions relate to a company's efforts to positively impact the environment by complying with regulations related to these aspects (Almeyda & Darmansya, 2019). Social action relates to how a company has a positive impact on stakeholders and the surrounding communities in which it operates. The governance aspect includes the integrity and ethical behavior of the company in the management system, including the board of directors.

Studies examining the effects of environmental, social, and governance (ESG) disclosure have yielded mixed results (Melinda & Wardhani, 2020). In his research on companies listed on the stock exchanges of each country in Asia, he found that environmental, social, and governance factors have a positive effect on company value. (Buallay, 2019) found that environmental, social, and governance (ESG) have a significant positive influence on corporate value in the banking sector in Europe.

They Christy & Sofie (2023) concluded that environmental and social factors have a significant negative effect on company value, but governance has a significant positive effect on company value. While the research (Felicia et al., 2022) proves that the environment has a significant negative effect on company value, social factors have a significant positive effect on company value, and governance has no effect on company value. Other studies have shownHusada and Handayani (2021) that environmental, social, and governance (ESG) have no effect on a company's value. Based on the phenomenon and differences from the results of previous research (research gap) that have been presented, it is the basis for researchers to continue a study that aims to analyze the influence of the implementation of environmental, social, and governance disclosure on the company's value.

2. LITERATURE REVIEW

2.1 Signal theory

Signal theory explains how management views a company's growth potential, which affects how potential investors react to a business ((Brigham, E.F. dan Houston, 2019). These signals provide information that explains management's efforts to meet owners' wishes. Investors and businesses consider this information an important signal when making investment decisions. Signal theory helps understand how management acts when conveying information to investors, which can ultimately influence investors' decisions based on the company's circumstances.

2.2 Global Reporting Initiative (GRI).

The Global Reporting Initiative (GRI) was established in Boston, United States, in 1997 by a number of companies and organizations that are members of the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute, with the involvement of the United Nations Environment Program. The initial purpose of the GRI was to ensure compliance with the principles of responsible environmental behavior by creating an accountability mechanism. Over time, the goal expanded to include social, economic, and governance issues (GRI, 2024). Two reporting standards are included in the Global Reporting Initiative guidelines for Sustainability Reporting: universal standards and topic-specific standards. The GRI has four standard series:100, 200, 300, and 400. The three universal standards that comprise the 100 Series are GRI 101 (Foundation), GRI 102 (Public Disclosure), and GRI 103 (Management Approach), which provide explanations for these standards. Other standards that address specific topics, including social, environmental, and economic, are described in series 200, 300, and 400 (Fajrianto & Mulawarman, 2021).

2.3 Company values

Company value is an investor's perception of their ability to manage a company's resources and is generally associated with stock prices(Indrarini, 2019). The ratios that can be used to measure a company's value according to Weston and Copeland (2010) in Indrarini (2019) are the price-earnings ratio (PER), price-to-book value (PBV), and Tobin's Q. In this study, Tobin's Q is used as a measure of company value because it is a comparison between the company's market value and the company's book value or the value of the company's assets (Margaretha, 2014). Companies with high Tobin's Q ratios tend to have attractive investment opportunities and significant competitive advantages (or both) (Ross, et. al., 2016:75).

2.4 Environmental social governance

Environmental, Social, and Governance (ESG) disclosure is a process through which companies communicate information about their ESG performance to the public. This is increasingly important because of the awareness of investors and the public regarding ESG issues, the demand for stricter regulations, and the increased risks and opportunities related to ESG. The GRI standard serves as a general guideline for the preparation of sustainability reports in Indonesia by establishing a framework that includes reporting the economic, environmental, and social impacts to the public through globally recognized standards (Sarnisa et al., 2022). In addition, the Financial Services Authority (OJK) issued regulations on the Implementation of Sustainable Finance for Financial Services Institutions (LJK), Issuers, and Public Companies, which were regulated in 51/POJK.03/2017.

2.5The effect of environmental disclosure on company value

Environmental disclosure includes data on energy use, emissions, resource use, and business innovations. Investors use the disclosure of a company's environmental factors to make decisions regarding their investments, which can affect the rise in stock prices. If a company conveys performance information well, it generates positive signals to investors and potentially increases its stock prices (Utomo et al., 2020). Therefore, the higher the stock price, the higher is the company's value in the eyes of investors and shareholders (Masruroh & Makaryanawati, 2020).

2.6The effect of social disclosure on company value

Social disclosure includes information regarding a company's social performance in various areas, including labor, human rights, product responsibility, and society. The company can continue to operate if the community recognizes that it maintains values that are in line with society itself(Felicia et al., 2022). A company's concern for social responsibility provides a positive signal welcomed by investors. This signal shows investors that a company can manage the social risks arising from its business activities (Christy & Sofie (2023).

2.7The Effect of Governance Disclosure on Company Value

Governance disclosure refers to the practice of information disclosure related to aspects of the governance of a company or organization. This activity involves the disclosure of information related to the organizational structure, governance policies, decision-making processes, internal controls, and ethical principles applied during company operations. Investors can interpret governance disclosure as an indication that a business has been well-managed. Through this announcement, management seeks to convince investors of their joint efforts to reduce their deceptive or dishonest behavior. It is hoped that investors will see this as a positive signal and provide higher value to the company (Felicia et al., 2022).

3. METHODOLOGY

3.1. Research Design

This study uses a quantitative method with an associative form. Quantitative research aims to determine the relationship between two or more variables (Sugiyono, 2018). The data used in this study were sourced from the website of the Indonesia Stock Exchange (BEI) and the company's official website. This research model is compiled based on various empirical study fields that have been carried out, including:

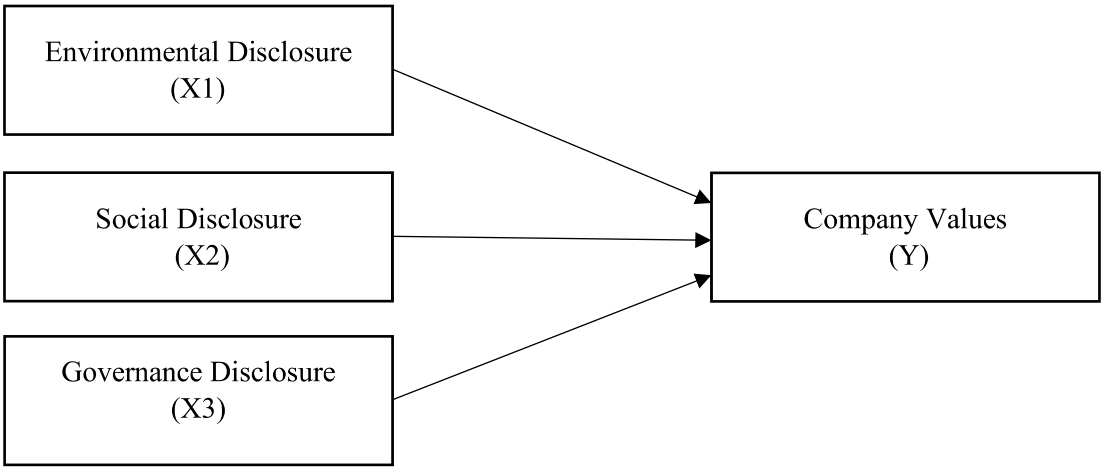
1. Effect of environmental disclosure on company value (Buallay, 2019), Melinda & Wardhani (2020), (Suretno et al., 2022).

2. The effect of social disclosure on company value ((Felicia et al., 2022), Melinda & Wardhani (2020), (Suretno et al., 2022).
3. The effect of governance disclosure on company value ((Buallay, 2019), Melinda & Wardhani (2020), Christy & Sofie (2023).

The research model and framework were prepared based on various empirical studies, as shown in Figure 1.

Figure 1

Conceptual Framework for environmental, social, and governance disclosure



Based on the description and conceptual framework above, the hypotheses of this study are as follows.

H1: Environmental disclosure has a positive effect on the company's value.

H2: Social disclosure affects the value of the company.

H3: Governance disclosure affects the company's value.

3.2. Sample

The population of this study includes all companies in the food and beverage subsector on the Indonesia Stock Exchange in 2020-2022. A purposive sampling technique based on certain criteria was used to obtain 66 samples.

3.3. Data Collection

Table 1 presents the variables observed in this study are defined in Table 1.

Table 1

Variable operational definition

Variable	Definition	Indicator	Source
Environmental disclosure (X1)	Environmental disclosure is the delivery of information related to environmental aspects by a company to interested parties. Environmental disclosure using the GRI series 300.	$\text{ENV} = \frac{\text{Sum of Company's Environmental Disclosure Item}}{\text{Total of GRI's Environmental Disclosure Standart Item}}$	(Ghazali & Zulmaita, 2020)

Social disclosure (X2)	Social disclosure is the delivery of information by a company related to its social and environmental impacts to stakeholders. Social disclosure is measured using the GRI 400 series.	$SOC = \frac{\text{Sum of Company's Social Disclosure Item}}{\text{Total of GRI's Social Disclosure Standart Item}}$	(Ghazali & Zulmaita, 2020)
Governance disclosure (X3)	Governance disclosure is the delivery of information by the company regarding corporate governance which includes various things, such as organizational structure, company policies, and ownership. This disclosure was carried out using GRI 102.	$GOV = \frac{\text{Sum of Company's Governance Disclosure Item}}{\text{Total of GRI's Governance Disclosure Standart Item}}$	(Ghazali & Zulmaita, 2020)
Company value (Y)	Tobin's Q is a ratio that proxies for a company's value. This ratio is obtained by comparing the market value of a company's assets (which includes the amount of debt and outstanding shares) with the cost of replacing the asset.	$\text{Tobin's Q} = \frac{\text{Total Market Value+Total Book Value of Liabilities}}{\text{Total Book Value of Asset}}$	(Kartika et al., 2023)

3.4. Data Analysis

The analysis technique used in this study was a multiple linear regression analysis consisting of three stages. The first stage was a descriptive analysis. The second stage is the classical assumption test, which includes normality, heteroscedasticity, multicollinearity, and autocorrelation tests. The third stage involves conducting a hypothesis test.

3.5Normality test

The results of the normality test using the Kolmogorov-Smirnov (K-S) test showed a significance value smaller than 0.05 of 0.000, indicating that this regression model is not normally distributed. To overcome this, the step that needs to be taken in the treatment process is to identify and handle outlier data using the Z Score and Casewise methods, and then transform the data in the form of Ln. The results of the normality test after improvement showed that the value of Asymp. Sig. (2-tailed) was set to 0.200. This value is greater than the significance level of 0.05; therefore, it can be concluded that the data are normally distributed.

3.6Heteroscedasticity test

The heteroscedasticity test is useful for determining inequality in the residual variance from one observation to another in the regression model. The results of the heteroscedasticity test showed a result greater than 0.05 (>0.05), so it can be concluded that there was no heteroscedasticity in the variables tested.

3.7Multicoloniniaritis test

The multicollinearity test aims to determine whether there is a correlation between independent variables (independent variables) in a regression model. The results of the normality test showed that all the variables had a VIF value of less than 10 and a tolerance value greater than 0.10. Thus, it can be concluded that there is no multicollinearity among the tested variables.

4. RESULTS AND DISCUSSION

4.1. Result

4.1.1 Descriptive statistical analysis

Table 2

Descriptive statistical analysis results

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Tobin’s Q	66	0.78	14.41	2.7138	2.46742
Environmental	66	0.00	0.66	0.3137	0.17346
Social	66	0.00	0.68	0.3094	0.16933
Governance	66	0.34	0.93	0.5915	0.10896
Valid N (listwise)	66				

According Table 2, the Tobin's Q variable shows a minimum value of 0.78 by PT Wilmar Cahaya Indonesia Tbk, 2022, and a maximum of 14.41 by PT Unilever Indonesia Tbk, 2020. Environmental has a minimum score of 0.00 by PT Tri Banyan Tirta Tbk, PT Sentra Food Indonesia Tbk, PT Era Mandiri Cemerlang, PT Siantar Top Tbk in 2020-2022 and a maximum of 0.66 by PT Indofood Sukses Makmur Tbk, 2022. Social has a minimum score of 0.00 at PT The Era of Mandiri Cemerlang in 2020 and a maximum of 0.68 by PT Wilmar Cahaya Indonesia Tbk in 2022. Governance has a minimum score of 0.34 in PT Ultra Jaya Milk Industry & Trading Company Tbk in 2020, and a maximum of 0.93 PT FKS Tbk 2022.

4.1.2 Autocorrelation test

The autocorrelation test uses the Durbin-Watson test method, which compares the Durbin-Watson value of calculation (d) with the Durbin-Watson value of the table. The decision was based on the Durbin-Watson test if $dU < d < 4 – dU$. The results of the autocorrelation test with a Durbin-Watson (DW) value of 1.157. This value was then compared with the table value at a significance level of 5% with the number of samples used being 59 samples (N=59) and the number of independent variables as much as 3 (k=3). Based on the equation dU<DW<4−dU, which is 1.6875>1.157<2.3125, autocorrelation was observed in the tested model. Autocorrelation correction was performed using the Cochran–Orcutt method. The result of the second autocorrelation test using the Durbin (DW) value was 2.015. Based on the Durbin-Watson table with an adjusted sample number of 48 (N=48) and three independent variables (k = 3), the equation is 1.6708 < 2.015 < 2.3292, which shows that there is no autocorrelation in the regression model.

4.1.3 Multiple linear regression analysis

Table 3

Multiple linear regression results

No	Variable	Regression Coefficient
1.	Constant	0.370
2.	Environmental	-0.047
3.	Social	-0.417
4.	Governance	1.027

Based on Table 3, the regression equation can be arranged as follows:

$$Y = 0.370 - 0.047\ Lag_{X1} - 0.417\ Lag_{X2} + 1.027\ Lag_{X3} \quad (4.1)$$

1. The constant value of 0.370 indicates that if the independent variable has a value of 0 or does not change, then the value of the dependent variable is the value of the company of 0.370.
2. The regression coefficient X1 (Environmental) has a negative value for the company's value of -0.047, meaning that every addition of one environmental unit will decrease the company's value by 0.047 assuming that the other variables are fixed or constant.
3. The regression coefficient X2 (Social) has a negative value of -0.417, meaning that every addition of one social unit will decrease the value of the company by 0.417, assuming that other variables are fixed or constant.
4. The regression coefficient X3 (Governance) has a positive value of 1.027, meaning that every addition of one governance unit increases the company's value by 1.027, assuming that the other variables are fixed or constant.

4.1.4 Hypothesis test

Table 4

Determination coefficient test results

R Square	adjusted R Square
0.186	0.131

As shown in Table 4, the level of determination coefficient test in this study was 0.186. The results show that the ability of independent environmental R^2, social, and governance variables to explain the dependent variables, namely company value, is 18%, while the remaining 82% is explained by other independent variables outside the research model.

Table 5

F test result

F	**Sig.**	**Information**
3.353	0.027	Decent regression model

Based on **Table 5**, the results of the F test after the improvement of the autocorrelation test show that the significance value of 0.027 is smaller than 0.05 (0.027< 0.05), so it can be concluded that this regression model is fit or feasible.

Table 6.

t test result

Variables	**Regression Coefficient**	t_{hitung}	t_{tabel}	**Sig.**	**Information**
Environmental (Lag_X1)	-0.078	-0.457	2.01537	0.650	Hypothesis rejected
Social (Lag_X2)	-0.429	-2.470	2.01537	0.017	Hypothesis accepted
Governance (Lag_X3)	0.422	2.551	2.01537	0.014	Hypothesis accepted

4.2Discussion

Based on Table 6, the level of influence of independent variables on dependent variables can be partially described as follows:

4.2.1 The effect of environmental disclosure on company value

The results of the first hypothesis test show no significant relationship between environmental disclosures and company value. This is evidenced by a significance value of 0.650, which is greater than the significance value of 0.05, which was determined in decision-making in the hypothesis test. Therefore, this hypothesis is rejected.

One factor that can explain the absence of a significant influence between environmental disclosure and corporate value is the lack of corporate understanding of complex environmental aspects. Environmental practices have high costs in the short term; however, financial sustainability actions are significant in the long term. Shareholders assume that a company's management focuses more on contributing to environmental practices than on efforts to optimize company value. Additionally, non-mandatory environmental disclosures make it difficult for shareholders to assess the impact of Husada and Handayani (2021). This study is in line with, Christy & Sofie (2023) and Husada & Handayani (2021) which indicates that environmental disclosure has no significant effect on company value.

4.2.2 The effect of social disclosure on company value

The results of the second hypothesis test show that social disclosure has a significant negative effect on company value. This is evidenced by a significance value of 0.017 and a regression coefficient value of -0.429. A significance value of 0.017 is smaller than that of 0.05, which is determined in decision-making in the hypothesis test; therefore, this hypothesis is accepted.

Social disclosure can negatively influence corporate value, because companies can maximize stakeholder wealth through social practice policies (Buallay, 2019). Companies with high social performance generally incur high implementation costs. This gives investors a negative signal. Therefore, many investors consider activities that incur high costs and have the potential to reduce financial performance in the short term. Consequently, a lack of investor interest in investing leads to a decline in the market demand (Nurdiati et al., 2024). Thus, investors perceive the benefits of ESG and better social disclosure performance reduces company value. The results of this study are in line with these findings(Buallay, 2019), (Johan & Toti, 2022) showing that social disclosure has a significantly negative effect on company value.

4.2.3 The effect of governance disclosure on company value

The results of the third hypothesis show that governance disclosure has a significantly positive effect on company value. This was evidenced by a significance value of 0.014 and regression coefficient value of 0.422. The significance value of 0.014 is smaller than the significance value of 0.05, set in decision-making in the hypothesis test; therefore, this hypothesis is accepted.

Governance disclosure has a significant positive effect on company value because of the application of good corporate governance principles implemented by most companies. A higher corporate governance disclosure score reflects better corporate governance performance(Melinda & Wardhani, 2020). This shows that the implementation of good corporate governance can effectively optimize a company's operational activities, thereby having an impact on increasing profits. An increase in company profits provides a positive signal for investors and encourages them to invest in companies that can increase their value(Christy & Sofie, 2023). This study is in line with Christy and Sofie (2023),Melinda and Wardhani (2020) Buallay (2019), who states that governance has a significant positive effect on a company's value.

5. CONCLUSION

5.1 Conclussion

Based on the results of the data analysis and hypothesis testing, it can be concluded that the environmental disclosure variable has a lower influence on company value, whereas the governance disclosure variable has a significant positive influence. By contrast, the social disclosure variable has a negative and significant influence. This is related to social and environmental disclosure, which can reflect company performance.

5.2 Suggestion

Based on the conclusions of this study, there are several suggestions as follows:

1. Companies should pay more attention to the factors that affect the company's value and how to apply ESG when they want to invest in a company, especially the disclosure of corporate governance (governance), because the results of this study prove that governance disclosure has a significant positive effect on company value. In addition, the company is expected to increase its implementation of appropriate ESG to improve its value and image to be better and more competitive. Therefore, it is important for companies to strive for the completeness and quality of sustainability reporting, as this is part of a shared commitment to creating business sustainability in Indonesia.
2. For future research, we hope that this study can be developed by increasing the data sample size and research period. In addition, further research can consider using different corporate industries and OJK indicators as ESG assessment standards to obtain results on the relationship between environmental, social, and governance (ESG) and better company values.

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