

CHAPTER I

INTRODUCTION

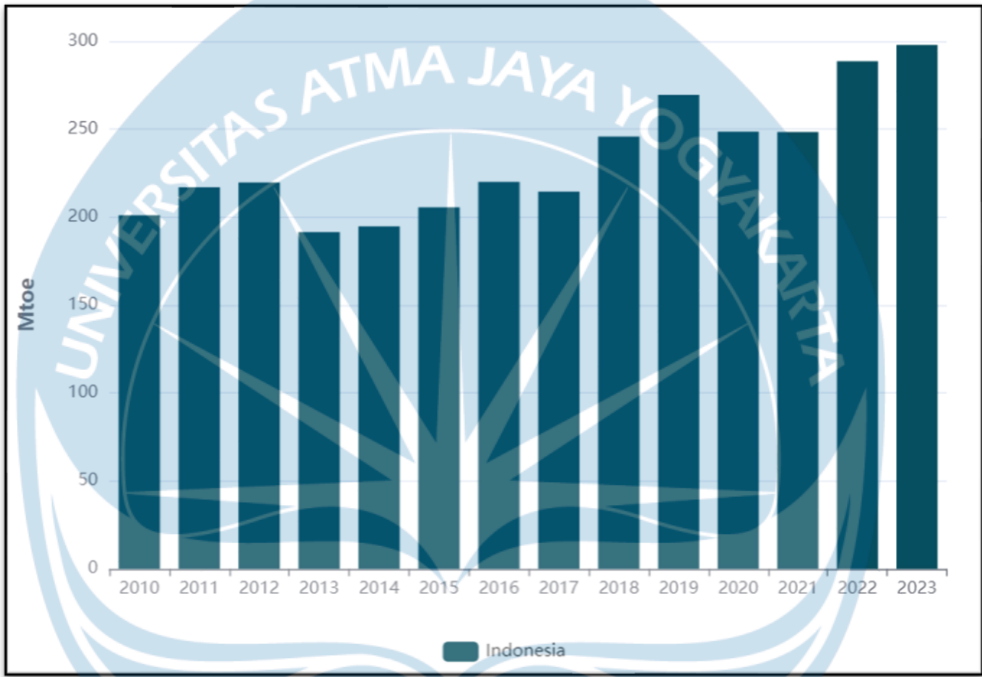
1.1 Background

In an era of globalization and increasingly fierce business competition, companies around the world are faced with demands to not only achieve financial profits, but also pay attention to their impact on the environmental, social, and governance disclosure. It is believed that the performance of companies that implement good corporate governance can be more resilient in facing the world crisis. The public will tend to place more trust in companies that have good ESG values. In contrast to companies that do not have ESG values, their credibility will be more questionable for these companies (Jeanice & Kim, 2023).

in the current era it can be understood that economic growth and energy demand are interrelated. As economic growth occurs, energy demand will also increase (Kraft & Kraft, 1978). If there are obstacles in energy production and consumption, the same thing will also be reflected in economic growth. This is because the energy sector is a sector of our industry that has a large role in increasing company production and economic output in general. Based on Figure 1.1. and Figure 1.2 total energy consumption in Indonesia and GDP (gross domestic product) per capita have increased by 48% and 81% respectively from

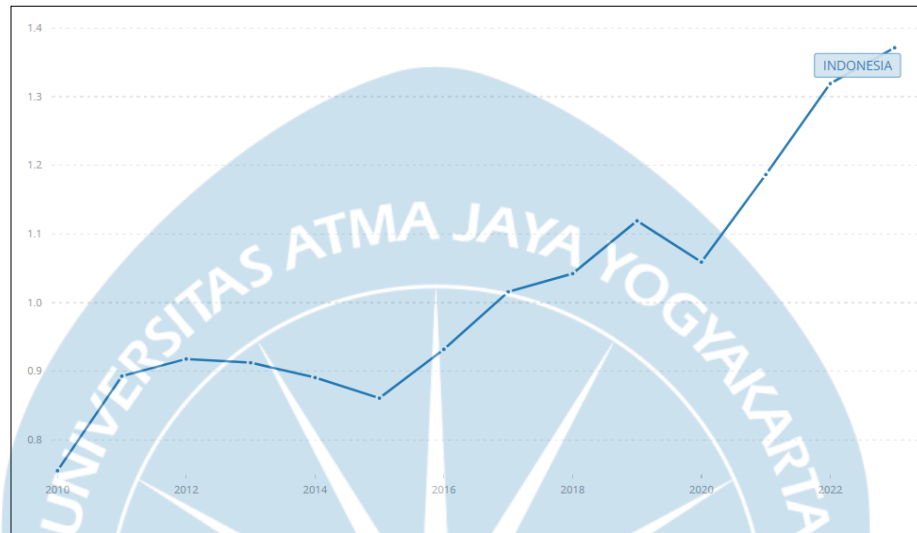
2010-2023. This can prove the relationship between economic growth and domestic energy consumption in Indonesia.

Figure 1.1
Total Energy Consumption in Indonesia 2010-2023



Source: Enerdata (2023)

Figure 1.2
Indonesia GDP per Capita (in USD)



Source: The World Bank (2023)

Not only energy consumption, but investment also plays an important role in economic growth. Investment is the root of all efforts to restore and grow the economy in Indonesia (Ministry of Investment (BKPM), n.d.). Efforts to calculate Indonesia's economic conditions cannot be separated from three important components, namely household consumption, the business sector for investment, and the foreign sector for exports and imports. Investment in the form of increased capital investment will have a positive impact on the production process in an increasingly active business, then it will also have an impact on increasing energy consumption in the household sector (Ministry of Energy and Mineral Resources Republic of Indonesia, 2020). Investors certainly want to invest some of their

capital to obtain profits or returns from the investment activities they have carried out. To achieve this goal, investors are very dependent on different financial instruments, one of which is stocks (Azeharie, 2022).

Companies and entrepreneurs are not only expected to carry out daily business operations but also pay attention to how their business affects the surrounding environment. This is in line with the target of the United Nations (2015), namely the Sustainable Development Goals (SDGs). The SDGs require companies and entrepreneurs to achieve 17 sustainable development goals and believe that actions in one area will affect results in other areas. This development must balance social, economic, and environmental sustainability, or known as ESG (Environmental, Social, and Governance). To ensure resilient sustainable development, Indonesia has initiated a systemic reform in four main areas, namely the social protection system, the national health system, the disaster resilience system, and the recovery of industry, tourism, and investment towards a green economy (United Nations, 2021).

The growth of awareness of the implementation of sustainable activities can also be seen from stock indices related to ESG and sustainability. The Indonesia Stock Exchange (IDX) issued the IDX ESG Leaders (IDXESGL) stock index in 2020 which measures the price performance of stocks that have good ESG ratings and are not involved in significant controversies and have good transaction liquidity and financial performance. Two new indices were also officially

launched by the IDX at the end of 2020 which are the result of the work of the IDX and the Biodiversity Foundation (KEHATI) called ESG Sector Leaders IDX KEHATI (ESGSKEHATI) and ESG Quality 45 IDX KEHATI (ESGQKEHATI). In addition, there is also the SRI-KEHATI index which has almost the same objective as IDXESGL.

In Indonesia, the movement to apply ESG aspects to companies continues to increase. This can be seen in the increasing development of sustainability investments where ESG aspects are important. Companies that successfully implement ESG have a deep understanding of long-term strategic issues and can manage long-term goals. Indonesian companies listed on stock exchanges and practicing ESG are increasingly experiencing large-scale exploitation of resources for large financial profits, causing enormous environmental damage (Syafurullah & Muharam, 2017). Indonesia has also responded well to the development of sustainability (ESG) aspects, namely with the issuance of the Sustainable Finance Roadmap Phase II of the Otoritas Jasa Keuangan (OJK). This plan was carried out with the hope of creating a comprehensive, sustainable financial ecosystem for all development activities (Otoritas Jasa Keuangan, 2021). One sector that is supported by implementing ESG aspects in business operations is the infrastructure sector.

Currently, the implementation of ESG Disclosure in Indonesia is still in a progressive stage and cannot yet be applied to all companies. The lack of

successful implementation of ESG in Indonesia is influenced by several factors, including there are many challenges that must be resolved when implementing this aspect, while not all companies are ready to face this. The International Association for Public Participation Indonesia (2022) stated that several obstacles hinder the rapid implementation of ESG disclosure in Indonesia, including: the low level of understanding that companies have regarding ESG disclosure, insufficient resources, and the high costs that must be incurred by companies when will conduct consultations regarding how to manage ESG aspects.

The importance of companies to improve ESG disclosure to gain investor confidence that the company can survive for a long period of time (Triyani et al., 2021). The Indonesian government provides support for companies to implement sustainability reports, which have been formalized by the Financial Services Authority NO 51 / POJK.03 / 2017 which contains the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This study will use the ESG disclosure received annually from a company's sustainability report. The ESG disclosure is calculated based on the latest Global Reporting Initiative (GRI), namely the GRI Standards. So, this study is expected to be able to see the effect of environmental, social, and governance (ESG) disclosure on the financial performance of energy sector companies. Energy industry companies listed on the Indonesia Stock Exchange (IDX) have begun to attract local investors by launching ESG disclosures that focus on

renewable energy development. Against this backdrop, this study aims to provide empirical evidence on the impact of disclosures on environmental, social, and governance issues on the financial performance of companies in the energy sector.

Kartika et al., (2023) revealed that ESG and regulations by authoritative bodies are carried out to increase public understanding regarding sustainability investment which is expected to continue to increase. Public awareness of ESG-based investments has continued to increase in recent years. Noviaranti (2020), revealed that ESG is one of the standards for companies in making long-term investments, which can integrate and implement policies carried out by companies related to the environment, social and governance. In 2020, it is known that there are 14 mutual funds ESG-based funds, where fund management reaches 3 trillion. This is proof that Indonesia is starting to recognize ESG-based investments. To be able to improve ESG implementation, the Indonesian Stock Exchange has made several efforts, including increasing ESG awareness of stakeholders in the capital market, conducting electronic reports, publishing environmentally friendly programs in the capital market, and publishing IDX.

This research aims to investigate the impact of ESG (Environment, Social and Governance) disclosure on the firm value of companies listed on the Indonesia Stock Exchange. ESG Disclosure is an indicator that reflects how companies manage non-financial factors that can influence their long-term performance. By understanding the relationship between ESG disclosure and firm

value, this research can provide better insight into the factors that influence the long-term success of a company in the Indonesian capital market. In addition, this research has important implications in the context of sustainable development and corporate social responsibility. By understanding the relationship between ESG disclosure and firm value, companies can develop more sustainable business strategies and communities can gain long-term benefits from their investments in capital markets.

Based on the explanation and description provided researchers are interested in conducting research on the impact of ESG disclosure on firm value. This research uses ESG which will be measured using the ESG Disclosure value from the Indonesian Stock Exchange (IDX) during the 2019-2023.

1.2 Research Question

Because ESG Disclosure is one of the standards for companies in making long-term investments, which can integrate and implement policies carried out by companies related to the environment, social and governance and currently, the implementation of ESG in Indonesia is still in a progressive stage and cannot yet be applied to all companies. Several issues contribute to Indonesia's lack of success with ESG implementation, including the numerous obstacles that must be overcome and the fact that not all businesses are prepared for them. The Research Question is does ESG Disclosure have a positive effect on the firm value?

1.3 Research Objective

To give empirical evidence whether ESG Disclosure having positive impact for the firm value to energy sector that listed in Indonesian Stock Exchange from 2019-2023

1.4 Research Contribution

In general, research is conducted in the expectation that it will advance knowledge in a variety of ways and be useful to both the public and professionals in many contexts. Following are some of the expected advantages of this research:

a. Theory Contribution

This research is expected to be a reference source for further researchers to do more research on the influence of ESG Disclosure (Environment, Social, and Governance) and Firm Value and can be a complement to further similar research.

b. Regulatory Contribution

This research is expected to be useful for the government to support the company in making the regulation about ESG clearer in the future.

1.5 Writing Structure

CHAPTER I INTRODUCTION

Chapter I consists of the research background, research questions, research objective, and research contribution

CHAPTER II LITERATURE REVIEW

Chapter II consists of theories and literature as the basis and hypothesis to support this study. First, the chapter will introduce the literature review. Second, past research that has been done in the same or similar topic by other scientists. Then the evolution of the hypothesis will be discussed

CHAPTER III RESEARCH METHODOLOGY

Chapter III consists of the type and source data, population sample, data collection method, theoretical framework, research variables, hypothesis testing, and data analysis method.

CHAPTER IV RESULTS AND ANALYSIS

Chapter IV consists of descriptive statistics, the results of data analysis, the results of hypothesis testing, then the discussion and analysis.

CHAPTER V

CONCLUSION

Chapter V consists of the conclusion of the research, research limitations, and suggestions for future research

