CHAPTER II

LITERATURE REVIEW

2.1 Stakeholder Theory

According to Rankin et al., (2018), stakeholder theory can be defined as a theory that considers the relationships between stakeholders who have interests other than society and which influence organizational performance. Stakeholder theory states that all stakeholders have the right to know information about how corporate activities affect them (Ulum, 2017). Stakeholder theory suggests that organizations should consider their stakeholders instead of focusing solely on maximizing the company's profits.

This theory explains the influence of stakeholders on organizational behavior. The more the resources necessary for an organization's success arecontrolled by stakeholders, the more likely managers will be sensitive to stakeholder concerns. Therefore, managers must manage the company's operations to reach the optimal point desired by all stakeholders (Rankin et al., 2018). Targeted stakeholders include governments, investors, customers, employees, and suppliers.

2.2 Signaling Theory

Signaling theory implies that a company's performance provides investors with clues about the company's prospects in the future, investors can understand the signals given by the company as clues about the history, current situation or future predictions about the company's condition (Brigham & Houston, 2010). This has a significant value because it can provide a deeper understanding of the company's journey (Triani & Tarmidi, 2019)

In this study, signaling theory can show how the market responds to signals of information, namely ESG Disclosure. After there is data related to disclosure, investors will use it as a benchmark in decision-making efforts, the company will try to provide comprehensive detailed information about its business operations with the aim of strengthening positive perceptions from stakeholders. ESG disclosure is believed to be able to provide a positive signal to all stakeholders because the entity is not solely focused on profit, but on carrying out its operational activities in the social and environmental fields. ESG disclosure is expected to act as a form of social investment that aims to meet the needs of stakeholders with the aim of making a positive contribution to the company's value. The sustainability carried out by the company also has an impact on the company's growth (Buallay & Hamdan, 2019).

2.3 Environmental, Social, and Governance

Over the last two decades, disclosure of sustainability reports has developed greatly throughout the world and continues to increase in number. Environmental, Social, and Governance (ESG) is a term generally used in a company's Corporate Social Responsibility (CSR) which is disclosed in its sustainability report. ESG has been in the limelight lately. Companies with good ESG implementation will have keen knowledge of long-term strategic issues so they can manage their long-term goals. ESG information can direct analytical forecasts to be more targeted and realistic. Company management also has the possibility of more precise information to be handled and results that can exceed its target market (Tarmuji et al., 2016). The development of increasingly large companies means that conflicts can occur more frequently between principals and agents due to differences in mindsets. each and their prominent interests.

There is a theory where there is a perspective from shareholders regarding the company's ability to obtain more company value in the future. Company management is responsible for this information to shareholders (Spence, 1973). The company's financial reports are very important and serve as guidance for shareholders. Can also be used as a core ingredient in considering and making investment decisions. Better information about the company can encourage shareholders to communicate this information to potential investors so that the company's share price can rise (Moeljadi & Supriyati, 2014). The information received by shareholders is not only about financial performance as represented by company profits, but nowadays it has also been proven that company sustainability information can influence long-term investment decisions of shareholders (Moratis, 2018).

2.4 Environmental, Social, and governance Disclosure

Disclosing factors communicating the impact and performance of companies in reporting environmental, social, and governance (ESG) aspects bringing sustainability into consideration is a strategy that can improve internal and external decision-making processes, promote transparency, strengthen financial stability, and reduce social tensions (Buallay, 2019). Sadiq et al., (2020) found that sustainability reporting helps improve financial performance.

ESG disclosure enhances a company's reputation and provides an advantage over competitors (Mohammad & Wasiuzzaman, 2021). According to Buallay (2019) with increasing economic globalization and the growth of large companies, disclosure of corporate governance practices is very important for company leaders. Companies that are responsive and able to adapt to changes in the external environment have a better chance of increasing firm value. Therefore, disclosure of information about the company's environment, social, and governance is a must to achieve sustainable profits (Azzara Safira Nur Farida, 2023). The intensity, method, and format of ESG disclosure vary from company tocompany (sadiq et al., 2020). To align with international standards, the integrated reporting initiative of ESG disclosure is used through guidance by the Amman Stock Exchange. ESG reporting can be used to portray a good image to the public to create a favorable perception by documenting changes in existing policiesrelated to ESG matters.

2.5 Previous researcher

Researcher	Variables	Subject	Research Result
(Suretno et al., 2022)	Independent Variables: X1: Environment X2: Social X3: Governance Dependent Variables: Firm Value (Y1)	all companies listed on the Indonesia Stock Exchange from 2016-2020.	H1: that the environment variable's disclosure had a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange. H2: Social disclosure has a positive and significant effect on firm value in companies listed on the Indonesia Stock Exchange. H3: Governance disclosure has a negative and significant effect on firm value in companies listed on the Indonesia Stock Exchange.
(Tarmuji et al., 2016)	Independent Variables:	The database search	H1: The result of the study reveals that

	X1: Environmental Practices X2: Social Practices X3: Governance Practices Dependent Variables: Y1: Economic Performance	revealed a total of 80 companies, which comprises of 35 companies in Malaysia and 45 companies in Singapore disclose on ESG practices. These were subject to constant disclosure over the period of 2010 to 2014, equivalent to 400 firm years of data.	environmental practices for both countries are significant positively correlated with economic performance. H2: The results reveal that social practices significantly influence economic performance for companies in Singapore. H3: The results also revealed that corporate governance practices significantly influence the economic performance of Malaysian companies. H4: The ESG Practices have an influence on the

			companies in Singapore and Malaysia
(Chang & Lee, 2022)	Independent Variables: X1: ESG Activities Dependent Variables Y1 : Firm Value	This study collected ESG data through the sustainability report from 2002–2020 on Korean companies	H1: ESG was found to have a positive effect on firm value H2: that industrial competition positively moderated the relationship between ESG and firm Value H3: The favorable impact of ESG efforts on company value in a rapidly expanding industry
(Fuadah et al., 2022)	Independent Variables: X1: ESG Disclosures Dependent Variables: Y1: Firm Value Y2: Firm Innovation Control Variables: Z1: Size Z2: Leverage	140 companies listed in Indonesian Stock Exchange from 2016-2020	H1: The results of this study indicate that foreign ownership has a significant positive effect on environmental, social, and governance (ESG) disclosure. H2: The results of

			this study indicate that public ownership has a positive and significant effect on environmental, social, and governance (ESG) disclosure H3: The ensuing study demonstrates that disclosure of environmental, social, and governance issues is unaffected by state ownership. H4: shows that family ownership does not affect environmental, social, and governance disclosure. H5: The result of this study shows that environmental, social, and

			governance disclosure affects firm value. H6: demonstrates that the impact of environmental, social, and governance disclosure on a company's performance is zero. The sixth hypothesis was thus disproved. H7: However, the resulting research shows that environmental, social, and governance disclosure affects firm value, and the audit committee moderates this influence. H8: The study's findings, however, did not discover a significant

			relationship between these factors, indicating that audit committees do not increase the impact of governance, social, and environmental disclosure on company performance.
(Jeanice & Kim, 2023)	Independent Variables: X1: ESG Disclosures Dependent Variables: Y1: Firm Value	45 companies on the Indonesian Stock Exchange for 3 years from 2018-2020	H1: ESG performance has a negative and significant effect on ROE in the empirical model

2.6 Hypothesis Development

2.6.1 The impact of ESG Disclosure on Firm Value

Firm value studies of ESG are less quantitative than individual E (environment), S(social), and G(governance) studies, but have been carried out recently by several academics. The literature on sustainability and corporate ethics has extensively studied the idea of ESG and its implications. Companies typically think that cost reductions in environmental programs can provide advantages or achieve greater customer satisfaction when it comes to the relationship between investment financial performance and environmental management. On the other hand, if a company invests in poor environmental management either due to inefficiency or unnecessary investment, the company's performance will be negatively impacted (Jeanice & Kim, 2023).

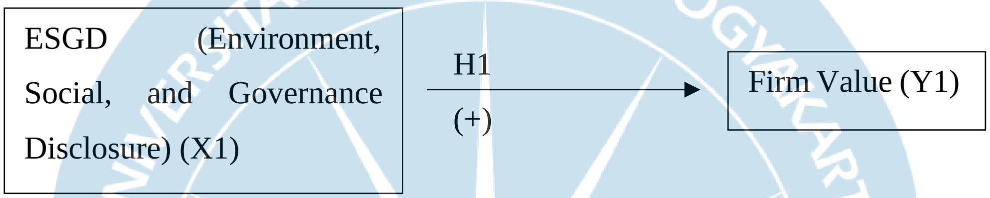
Sustainable development activities are expected to encourage greater demand for products and services from companies which will increase company growth and reduce business risks (Buallay, 2019). When demand for a company's products and services increases, the company's production also increases. This increase in production has an impact on the company, namely increasing the costs that must be incurred by the company. However, ESG has a quite positive impact oncompanies. By disclosing sustainability reports containing both financial and non-financial information, information regarding company performance can be provided and accounted for to shareholders to satisfy shareholder demands. ESG disclosure that has a positive response from the public can increase the capital investment that can be obtained. This also means that the company can use the additional capital to further increase production, increase sales, and increase the company's profitability (Safriani & Utomo, 2020).

The fact that this research wants to reveal is that the implementation of ESG Disclosure has a positive effect on company value, so that a high ESG score will result in high company performance. Empirical findings conducted by (Safrianu &

Utomo, 2020), (Liu & Zhang, 2017), (Aboud & Diab, 2018), (Fatemi et al, 2018), (Zhang et al, 2020) supports that ESG has a positive effect on company value. So, the hypothesis that can be drawn is as follows:

H1: ESG Disclosure has a positive effect on firm value.

2.7 Conceptual Framework



Information:

X1 = ESG Disclosure

Y1 = Firm Value

H1 = ESG has a positive effect on Firm Value