THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DISCLOSURE AND DIVIDEND POLICY ON FIRM VALUE

(Empirical Study on Companies Listed in the SRI KEHATI Index of the Indonesia Stock Exchange for the Period 2019-2022)

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ABSTRACT

The aim of this research is to analyze the influence of Environmental, Social, and Governance (ESG) disclosure and dividend policy on firm value. The population in this study comprises all companies listed in the SRI KEHATI index from 2019 to 2022. The sampling method employed in this research is purposive sampling, with a total of 64 samples used. The data utilized in this study are obtained from the Bloomberg database, annual reports, and financial statements. The data are analyzed using multiple regression techniques, preceded by classical assumption tests. The findings of this study indicate that environmental disclosure does not affect firm value. However, social and governance disclosures have a positive impact on firm value. Additionally, the dividend policy negatively influences firm value.

Keywords: Environmental Disclosure, Social Disclosure, Governance Disclosure, Dividend Policy, Firm Value.

INTRODUCTION

Firm value, a cornerstone concept in financial analysis, encapsulates the market's assessment of a company's worth based on various quantitative and qualitative factors. It represents the aggregate value of a company's equity, reflecting investors' expectations regarding its future performance, profitability, risk profile, and growth prospects. This valuation is crucial as it directly impacts stock prices, market capitalization, and the overall attractiveness of a company to potential investors (Carter, B J Simkins, & Simpson, 2003). In empirical research, such as the study focused on companies listed in the SRI KEHATI Index of the Indonesia Stock Exchange from 2019 to 2022, firm value serves as a pivotal metric. This index comprises firms recognized for their commitment to environmental, social, and governance (ESG) standards.

Several factors contribute to determining firm value. Financial performance indicators such as revenue growth, profitability margins, and return on equity (ROE) play a critical role. (Jonnius & Marsudi, 2021) companies exhibiting strong financial metrics often command higher valuations as they are perceived to have sustainable earnings potential. Additionally, factors like market demand for the company's products or services, industry outlook, and competitive positioning influence how investors perceive a firm's future growth prospects. Non-financial factors, including ESG considerations, have gained prominence in recent years. ESG factors encompass a company's environmental impact (such as carbon footprint and resource usage), social policies (like labor practices and community engagement), and governance practices (including board structure and executive compensation). (Shaikh, 2022) These factors are increasingly integrated into investment decisions as investors seek companies that demonstrate responsible corporate behavior and long-term sustainability.

The selection of the SRI KEHATI Index for this study is pivotal due to its explicit focus on Environmental, Social, and Governance (ESG) criteria in evaluating listed companies on the Indonesia Stock Exchange. As an index dedicated to sustainable and responsible investment

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practices, SRI KEHATI identifies companies committed to transparent ESG disclosures and robust governance frameworks. (Toti & Johan, 2022) This framework is particularly relevant in exploring how ESG disclosures and dividend policies influence firm value.

Details regarding environmental, social, and governance (ESG) disclosure prove advantageous for companies. According to the Nielsen Global Survey of Corporate Social Responsibility (2014), more than half of global consumers demonstrate readiness to invest in products and services offered by firms prioritizing social and environmental responsibility. Since this kind of responsible behavior can only be known through disclosures made by the company, ESG disclosure is valuable for the company (COMPANY, 2014).

Firm value can also be influenced by dividend policy. It was determined that the dividend policy achieved a balance between paying dividends currently and allowing for future growth, which ultimately maximized the firm's value as reflected in its share price (Brigham & Weston, 2005). A company use a dividend policy that effectively balances current dividend distributions with reinvestment for future growth, it signals to investors that the firm is financially stable and capable of generating consistent returns.

By integrating both ESG disclosure and dividend policy into the analysis, this study seeks to explore their synergistic effects on firm value within the context of companies listed in the SRI KEHATI Index from 2019 to 2022. The SRI KEHATI Index, known for its focus on sustainability and responsible investment, provides an ideal framework for examining these factors. The study aims to uncover how companies' strategic approaches to ESG practices and dividend distributions influence investor perceptions and ultimately contribute to their market valuations over the specified period. This comprehensive examination is expected to contribute valuable insights into the dynamics of sustainable investing and corporate valuation practices, potentially guiding companies towards strategies that enhance their overall value in the market.

THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

In 1963, within an internal memo at the Stanford Research Institute (SRI), the term "stakeholder" came into existence. Those regarded as stakeholders are parties or persons with the capacity to influence or be influenced by the attainment of a company's objectives (Freeman, 1984). The stakeholder theory that instead of prioritizing the maximization of shareholder wealth, corporations should primarily focus on serving all stakeholders within the societal framework in which they operate (Mansell, 2013). According to this theory, corporations have a broader responsibility beyond just generating profits for shareholders, they should actively. engage with and balance the needs and concerns of all stakeholders. Stakeholders consist of public interest groups, suppliers, customers, employees, creditors, stockholders, and governmental bodies (Roberts, 1992). In addition, McVea and Freeman (2005) suggest that stakeholders should be seen as real individuals rather than abstract concepts. That is perspective enables managers to better understand the consequences of their actions and consider the ethical implications of organizational decisions. It believed that stakeholder theory should focus on creating value, making decisions, and building relationships with real people, which means taking a more individualized approach to how companies interact with stakeholders. By embracing stakeholder theory within ESG disclosure practices, companies acknowledge their responsibility to not only maximize shareholder value but also to operate ethically and sustainably for the benefit of all stakeholders. As the company discloses more information, stakeholders develop greater trust in the company. If this keeps happening over time, it builds a stronger relationship between the company and its stakeholders, which makes the company more valuable. Social and environmental disclosure serves as a communication tool for companies with their stakeholders and meet their various needs (Huang & Kung, 2010). The final aspect is governance, which involves managing the interests of stakeholders and shareholders while adhering to the best practices of corporate governance (De Masi et al., 2021). Thus, the information shared through environmental, social, and governance disclosure helps stakeholders to the company's sustainability and ethics, empowering them to make informed decisions and strengthen trust with the company. Environmental, social, and governance disclosures are valuable tools that companies can use to mitigate conflicts with stakeholders and enhance stakeholders' perception of their company's actions (Freeman, 1984).

Signaling Theory

Signaling theory started with Michael (1973) in labor economics, in which he introduced the concept of "information asymmetry" into economic models, thereby incorporating it into decision-making processes (Bergh et al., 2014). Signaling theory is a concept that explains how individuals or groups communicate, especially when one has more information than the other. It helps reduce uncertainty by using signals to convey credible information in situations where there's unequal access to information. According to Mavlanova et al. (2012), it helps explain how two sides behave when they have different levels of information. Signals containing relevant information about a target's prospects are valuable for a buyer to address the issue of unequal information. This allows them to evaluate the target's quality and, ultimately, its firm value. Signaling theory suggests that companies to impress potential investors by sharing positive information in financial reports (Whiting & Miller, 2008).

Decisions regarding the distribution of profits to shareholders, constituting dividend policy, are shaped by signaling theory. This theory posits that corporations. employ alterations in dividends to communicate insights regarding their financial well-being and future outlook to investors. The signaling hypothesis often elucidates the primary rationale behind companies' dividend payments, proposing that dividends serve as indicators of a firm's forthcoming prospects. Survey results from Lintner (1956) demonstrate that managers exercise prudence in reducing dividends as it may depress stock prices, and they solely augment dividends when they anticipate an enhancement in the firm's profitability.

Hypothesis Development

The Influence Between Environmental Disclosure and Firm Value

Environmental disclosure means sharing information about its environmental impact in its annual or sustainability report. Environmental disclosure gives stakeholders important information, so shareholders demand that environmental information be disclosed, audited, and included in the annual report and on the company's website as a requirement (Villiers et al., 2011). Iatridis (2013) stated that environmental disclosure includes data that is important for building a company's positive reputation. When a company regularly discloses more information, stakeholders trust it more. Continual transparency fosters a stronger bond between the company and its stakeholders, consequently augmenting firm value. Based on the explanation above, the first hypothesis is

H1 : Environmental Disclosure positively effect on Firm Value

The Influence Between Social Disclosure and Firm Value

Disclosing information about social responsibility is an essential aspect of corporate responsibility for companies listed on stock exchanges (Kolk & van Tulder, 2010). ESG (Environmental, Social, Governance) performance disclosure and disclosure of social sustainability can increase a company's reputation. The rising public demand for businesses to fulfill social responsibilities has encouraged business leaders to allocate more time and resources to social activities in order to meet stakeholder expectations (Lu et al., 2022). Companies that partake in broader social disclosure typically uphold a more robust reputation and rapport with stakeholders, potentially resulting in an elevated firm value (Gray et al., 1995). Based on the explanation above, the second hypothesis is

H2 : Social Disclosure positively effect on Firm Value

The Influence Between Governance Disclosure and Firm Value

The Governance Score reflects a company's governance practices, evaluating aspects like management, corporate social responsibility (CSR) strategy, and relationships with shareholders. Lokman et al. (2014) suggest that disclose information about corporate governance practices is a great way to measure the quality of a company's governance structure. By disclosing the corporate governance policies and structures, the company provides transparency into its operations and financial condition, which enhances public trust and credibility. Governance disclosure is important for investors as it signifies transparency, enabling external oversight and potentially leading to increased investor confidence, higher firm valuation, and greater stock returns (Shleifer & Vishny, 1997). Additionally, enhanced governance disclosure instills a sense of security among investors by reducing information asymmetry, increased voluntary disclosure improves transparency, boosts investor confidence, and enhances the credibility of the firm (Naciti, 2019). Based on the explanation above, the third hypothesis is

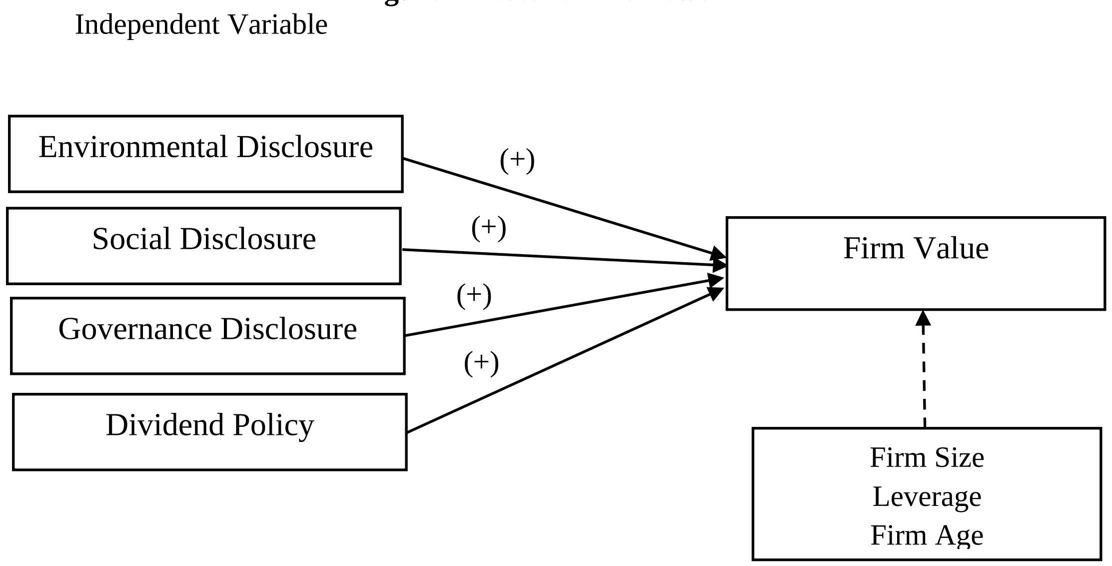
H3 : Governance Disclosure positively effect on Firm Value

The Influence Between Dividend Policy and Firm Value

Establishing an effective dividend policy is important for a company because it can significantly impact its overall value (Jiang et al., 2017). A well-crafted dividend policy can serve as a powerful signal to the market, conveying crucial information about a company's financial health, growth prospects, and management's confidence in future earnings sustainability. Companies that consistently pay regular and predictable dividends, or those that strategically increase dividends over time, signal stability and strong cash flow generation. Such actions are typically interpreted positively by investors, suggesting that the company is financially robust and poised for future growth, thereby enhancing its perceived value in the market. Based on the explanation above, the fourth hypothesis is

H4 : Dividend Policy positively effect on Firm Value

Figure 1 Research Framework



RESEARCH METHODS

Sample Design and Data Collected

The population for this research comprised companies listed on the Indonesian Stock Exchange (IDX) Sustainable and Responsible Investment Index (SRI KEHATI) from 2019 to 2022. The study utilized purposive sampling, selecting samples based on specific criteria that aligned with the study's purpose and objectives. Here are some of the criteria used for sampling in the research.

1. SRI-KEHATI Index Companies listed on the IDX in the 2019-2022 period.
2. SRI-KEHATI Index Companies inconsistently included in the SRI KEHATI index during the 2019-2022 research period.

Sample Criteria	Total
SRI-KEHATI Index Companies listed on the IDX in the 2019-2022 period.	37
SRI-KEHATI Index Companies inconsistently included in the SRI KEHATI index during the 2019-2022 research period.	(20)
Outlier	(1)
Total companies according to criteria	16
Number of observations 2019-2022 (16 companies x 4 year)	64

Source: Secondary data processed (2024)

Analysis Method

The analysis method used is regression analysis. In this study, firm value avoidance is described as a dependent variable. While the independent variables studied are environmental disclosure, social disclosure, governance disclosure and dividend policy. The control variables that will be used are firm size, leverage, and firm age.

$$Q = \beta 0 + \beta 1 ENV + \beta 2 SOC + \beta 3 GOV + \beta 1 DPR + \beta 4 SIZE + \beta 5 AGE + \beta 6 LEV + e$$

Information:
Q : Firm Value with Tobin's Q
β0 : Constant β1,2,3,4,5,6
ENV : *Environmental Disclosure*
SOC : *Social Disclosure*
GOV : *Governance Disclosure*
DPR : *Dividend Payout Ratio*
SIZE : *Firm Size*
LEV : *Leverage*
AGE : *Firm Age*
e : *Eror term*

Table 1 Variables and Measurements

Variables	Measurement
Firm Value (Tobin's Q)	Market Value of All Outstanding Shares + Total Debt / Total Asset
Environmental Disclosure	*Bloomberg Score*
Social Disclosure	*Bloomberg Score*
Governance Disclosure	*Bloomberg Score*

Dividend Policy	Dividend per Share / Earnings per Share
Firm Size	Ln of Total Asset
Leverage	Total Debt / Total Asset
Firm Age	Year of Observation – Year the Company was Established

RESEARCH RESULTS AND DISCUSSION

Through the tests that have been conducted, this study aims to determine the effect of environmental disclosure, social disclosure, governance disclosure, and dividend policy on firm value by first conducting descriptive statistical analysis.

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ENV	64	.00	58.41	29.3737	14.64674
SOC	64	.00	58.07	36.4736	13.76848
GOV	64	.00	93.62	76.8960	20.91884
DPR	64	.00	14105.00	415.1500	2332.39447
Tobin's Q	64	.71	6.52	1.5888	1.34012
SIZE	64	11.54	21.41	18.5262	2.40012
LEV	64	.00	.89	.4412	.29822
AGE	64	21.00	163.00	65.3125	38.50412
Valid N (listwise)	64				

Source: Output IBM SPSS 25 (2024)

Indicates that Environmental Disclosure Score (ENV), which measures the extent of environmental information disclosure, the minimum score is 0.00 and the maximum score is 58.41. Standard deviation is 14.64674, which is lower than the mean score of 29.3737. This implies that the mean is a good representation of the data, suggesting limited variation and a generally low level of deviation in institutional ownership.

Social Disclosure Score (SOC), that indicate the information about the social, ranges from 0.00 (minimum) to 58.07 (maximum). With a standard deviation of 13.76848, which is less than the average score of 36.4736, the mean effectively reflects the data's condition. This indicates that the data is homogeneous, meaning that institutional ownership generally shows a low level of deviation.

Governance Disclosure Score (GOV), which incorporates governance information, varies between the minimum is 0.00 and the maximum is 93.62. With a standard deviation of 20.91884, which is less than the mean score of 76.8960, the average properly represents the data. This implies that there is little variance in the data.

Dividend payout ratio (DPR), has the information about the portion of between earnings paid to shareholders and reinvested in the business. The results of the descriptive test on this variable have a minimum score of 0.00 and a maximum score of 14105.00. The average score is 415.1500 and the standard deviation is 2332.39447, which means that the standard deviation is greater than the mean score, this shows that there is a lot of variation in the data.

Tobin's q is a proxy for measuring firm value, the descriptive test results with a minimum score of 0.71 and a maximum score of 6.52. The mean score was 1.5888, and the standard deviation was 1.34012.

Firm size (SIZE) has the results of the descriptive test have a minimum score of 11.54 and a maximum score of 21.41. The mean score is 18.5262 and the standard deviation is 2.40012.

Leverage (LEV) has the findings of the descriptive test results range from a minimum score of 0.00 to a maximum score of 0.89. The mean score is 0.4412, while the standard deviation is 0.29822.

Firm age (AGE) where the descriptive test produces a minimum score of 21.00 and a maximum score of 163.00. The mean score is 65.3125 and the standard deviation is 38.50412.

SIDO (Sidomuncul) company has scores indicating a lack of disclosure or 0 disclosure in key areas such as Environmental Disclosure Score (ENV), Social Disclosure Score (SOC), and Governance Disclosure Score (GOV). This absence of disclosure can influence stakeholders' perceptions of the company's transparency and social responsibility practices, and reduce the information available for investors to assess risks and investment opportunities in the company.

Classical Assumption Test Analysis

Normality test in this research utilizing the Kolmogorov-Smirnov (KS) test, this examination discerns if a dataset conforms to such a distribution. Should the significance value (Sig.) exceed 0.05, it implies that the residuals exhibit a normal distribution. Based on normality test, an asymptotic significance value of 0.099, which is greater than 0.05. This suggests that the data is likely normally distributed.

The evaluation of multicollinearity in this study was determined by examining the results of tolerance and variance inflation factor (VIF). The results of the tolerance value above 0.10 and the VIF value is less than 10, so this is considered not to indicate multicollinearity.

The heteroscedasticity test measures whether the regression error variance is correlated with the value of the independent variable. In this study, the park test was used for this assessment. The results of the significance value exceed 0.05, indicating the absence of heteroscedasticity.

The autocorrelation test is a statistical method used to detect patterns or relationships between data points in a time series. The Durbin-Watson (DW) statistic is a measure used to detect autocorrelation in this study. The results of the Durbin-Watson statistic are between -2 and +2, indicating no autocorrelation.

F Statistical Test

The results of the significance value of 0.000 < 0.05 prove that environmental disclosure, social disclosure, governance disclosure and dividend policy simultaneously have an effect on company value.

Table 3 F Statistical Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.883	7	13.126	34.576	.000[b]
	Residual	21.259	56	.380		
	Total	113.143	63			

Source: Output IBM SPSS 25 (2024)

Coefficient of Determination Test (R^2)

The R^2 value of 0.812 signifies that the independent variable's capacity to clarify the dependent variable amounts to 81.2%. Otherwise, the residual 18.8% is accounted for by variables external to the research model.

Table 3 Coefficient of Determination Test (R^2) Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901[a]	.812	.789	.61614
a. Predictors: (Constant), AGE, ENV, SIZE, LEV, DPR, SOC, GOV				

Source: Output IBM SPSS 25 (2024)

T Statistical Test

Based on the results of, it can be concluded that the independent variable environmental disclosure (ENV), the calculated t value is -0.663 with a significance of 0.510 > 0.05. So, it can be concluded that environmental disclosure has no significant on firm value. The other independent variable is social disclosure (SOC), the calculated t value is 4.514 with a significance of 0.000 below than 0.05. So, it can be concluded that social disclosure has a significant effect on firm value. The result regarding governance disclosure as an independent variable. With a calculated t value of -9.825 and a significance level of 0.000, which is well below of 0.05, it becomes that governance disclosure has significant effect on firm value. Regarding the independent variable of Dividend Policy (DPR), with a calculated t value of -0.294 and a significance level of 0.770, which is higher than 0.05, it seems that dividend policy doesn't significantly affect firm value.

The t-test results for the control variables, firm size (SIZE) and Leverage (LEV), indicate values of -0.312 and -1.014 respectively, with significance values of 0.756 and 0.315, both greater than 0.05. This suggests that these variables have insignificantly impact on firm value. Meanwhile, for the control variable firm age (AGE), the t-test value is -3.002 with a significant value of 0.004, which is less than 0.05. So, the firm age significant influences firm value.

Table 4 T Statistical Test Results

	t	Sig.
(constant)	7.723	0.000
ENV	-0.663	0.510
SOC	4.514	0.000
GOV	-9.825	0.000
DPR	-0.294	0.770
SIZE	-0.312	0.756
LEV	-1.014	0.315
AGE	-3.002	0.004

Source: Output IBM SPSS 25 (2024)

Discussion of Results

Statistical tests show that environmental disclosure has no significant impact on firm value in Indonesia. Annual data shows significant fluctuations, with some firms reporting no disclosure and others reporting high levels of disclosure. This suggests the practice of greenwashing, which involves misleading consumers about a company’s environmental practices. Lack of public awareness of greenwashing is a key indicator. This contradicts stakeholder theory, which states that firms should prioritize environmental responsibility to meet stakeholder needs and attract investors. Therefore, the first hypothesis **(H1) is not significant**.

The study reveals that social disclosure significantly influences firm value. Stakeholder theory emphasizes businesses generating value for diverse stakeholders, including employees, customers, suppliers, communities, and the environment. This approach not only seeks profit but also solves social problems, enhancing financial performance and attracting investments. Participating in social disclosure enhances a company's reputation, brand value, and attracts customers, contributing to higher firm value. Therefore, the second hypothesis **(H2) is significant**.

Governance disclosure positively impacts firm value, as it builds trust with investors and stakeholders, leading to increased transparency and confidence. This aligns with stakeholder theory, emphasizing the importance of including stakeholder interests in corporate decision-making and reporting. Governance disclosure helps companies establish good relationships with stakeholders, demonstrate good corporate governance, support sustainable management, and improve financial performance. Research by Sammy El-Deeb et al. (2023), Aboud and Diab (2018), and G. H. Ionescu et al. (2019) supports this conclusion. Therefore, the third hypothesis **(H3) is significant**.

The study reveals that dividend policy in Indonesia is often considered insignificant to firm value, The research, covering 64 companies from SRI-KEHATI between 2019 and 2022, found that 12.5% to 31.25% of companies did not issue. This is in contrast to previous research studies that suggest consistent dividend payouts signal reliability and profitability to investors, thereby boosting overall market value. The lack of clarity and consistency in dividend policy communication could potentially have a negative impact on firm value if not effectively managed or explained to shareholders and investors. The study emphasizes the need for companies to enhance transparency and communication regarding dividend policies to build trust and support increased market valuation. Therefore, the first hypothesis **(H4) is not significant**.

CONCLUSION

This study examines the impact of environmental, social, and governance (ESG) disclosure and dividend policy on firm value. The research sample consisted of 64 companies from the SRI-KEHATI index from 2019 to 2022. The findings reveal that environmental disclosure has a negative effect on firm value, with a lower average compared to social and governance disclosure. Social disclosure positively influences firm value, as companies sharing extensive information about their social activities enhance their reputation and build trust with stakeholders. Governance disclosure significantly impacts firm value, as companies that disclose their governance practices build trust with investors and stakeholders, leading to higher firm value. However, dividend policy has an insignificant impact on firm value, as some companies still do not disclose their dividends, which can negatively affect the company's value. The study's limitations include its limited coverage from 2019-2022 and its generalizability to all companies in Indonesia. The authors recommend expanding the research period to capture long-term trends and include more companies from various sectors, considering companies from other indices.

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