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THE IMPACT OF ESG REPORTING TO CORPORATE VALUE: A LITERATURE REVIEW

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Abstract:
In conducting its business, a company always strives to increase profits and maximise investor wealth, which in turn impacts the company's value. One of the keys to this is the implementation of Environment, Social, and Governance (ESG), which covers aspects of environmental sustainability, social issues, and corporate governance. The implementation of ESG can be seen in the company's sustainability reports. ESG is a standard designed to evaluate and regulate environmental, social, and corporate performance in companies. This study aims to discuss the results of previous studies related to the influence of ESG on company value. The method used is a literature review. The study shows that research has produced inconsistent results regarding the impact of ESG on company value, with a tendency for ESG reporting to have no significant effect and a tendency for ESG performance to have a positive effect. It is also mentioned that awareness of the importance of ESG in companies is still relatively low, so that companies and investors do not pay much attention to the implementation of ESG in companies.

Keywords: ESG, Disclosure, Performance, Awareness

INTRODUCTION

Companies, which operate their businesses, always strive to increase profits and, in the long term, not only profits, but also maximise investor wealth, which then has an impact on increasing company value. Company value is a reflection of a company's ability to run its business, which can shape the perceptions of stakeholders through the company's capabilities, which are quantified through value.

One of the key factors in optimising company value is Environment, Social, and Governance (ESG). ESG is a non-financial indicator that encompasses aspects of social sustainability and corporate governance (Roestanto et al., 2022). For stakeholders, ESG is also useful for identifying all non-financial risks and opportunities in a company's operational activities, especially since public awareness of the environmental and social impacts of economic activities has increased, including among governments and business organisations (Sadiq et al, 2023).

Its implementation can be seen in the company's sustainability report. A sustainability report is a medium used by companies to disclose information about the implementation and performance of the company's ESG, which not only monitors the prudence of a business, but also the effectiveness of policies made in relation to it. Regarding sustainability reporting, public companies are required to submit sustainability reports as stipulated in OJK Regulation Number 51/POJK.03/2017, which emphasises that financial service institutions, issuers, and public companies are required to prepare sustainability reports and submit them to the OJK.

This study aims to discuss the results of previous studies on the influence of ESG, both in terms of performance and disclosure, on company value.

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METHODS

The method used for this research is a literature review by collecting theories, research data, or findings from previous studies from various sources related to the influence of ESG performance on company value.

RESULT AND DISCUSSION

We found that the research results showed inconsistent findings from one researcher to another. In terms of the effect of ESG disclosure on company value, it was found that Robi'ah Devy Susiati, Bayu Tri Cahya (2024), Ghina Tirta Wangi, Alfida Aziz (2023), Fiki Kartika, Arief Dermawan, Faza Hudaya (2023), and Ega Christy, Sofie (2023) stated that ESG disclosure does not have a significant effect on companies, while Enny Prayogo, Rini Handayani, Tiara Meitiawati (2023) show that ESG has a negative effect on company value, and Ryan Edriansyah Adhi, Nur Cahyonowati (2023) show that ESG disclosure has a significant positive effect on company value. In terms of ESG performance on company value, research by Areta Xaviera and Annisaa Rahman (2023) shows that overall ESG performance does not have a significant effect on company value, while in each component, such as environment, social and governance, the environmental component has a significant negative effect in the short term, but in the long term it has a significant positive effect, social performance has no significant effect, and governance performance has a significant positive effect on company value. Meanwhile, research by Jefry Ari Mauliddin and Anang Subardjo (2024) shows that ESG performance has a positive effect on company value.

Robi'ah Devy Susiati, Bayu Tri Cahya (2024) mention that environmental actions take a long time to yield results for companies, and Enny Prayogo, Rini Handayani, Tiara Meitiawati (2023) also mention that ESG disclosure is only considered an investor requirement, causing agency conflicts, and it is also mentioned that the main objective of companies is to increase investor wealth. Areta Xaviera and Annisaa Rahman (2023) also mention that ESG disclosure is still seen as an expense for companies, and the resources used to support ESG performance are considered not to be used for productive purposes. In addition, public pressure in developing countries such as Indonesia regarding ESG performance disclosure tends to be small. The root of these problems is mentioned by Ghina Tirta Wangi and Alfida Aziz (2023), who state that awareness of environmental, social, and governance factors is still lacking among entrepreneurs, investors, and the public. This can be seen from the fact that many parties only care about short-term profits without considering the long-term impact of their business activities.

Regarding the benefits, Ryan Edriansyah Adhi and Nur Cahyonowati (2023) state that ESG disclosure goes beyond normal activities, and there are shareholders who want long-term profits rather than short-term ones. In addition, Jefry Ari Mauliddin and Anang Subardjo (2024) also mention that there is a relationship between ESG and a company's future cash flow. In this case, ESG has an impact that cannot be felt in the short term, but rather in the long term.

Regarding the reporting itself, Ega Christy, Sofie (2023) states that the implementation of ESG and the quality of ESG reporting need to be improved. This can be done in order to build public awareness of the importance of environmental, social and corporate governance factors.

Based on the discussion of the article, it is known that the results of research on the influence of ESG on company value, both in terms of disclosure and performance, still provide inconsistent results between one researcher and another. Furthermore, ESG disclosure is still considered a burden for companies, and investors still do not place much importance on ESG disclosure due to the attitude of investors and entrepreneurs who only see short-term profits. The lack of public awareness of ESG is a major factor in this.

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CONCLUSION

Companies should not only pursue profit, but also maximise investor wealth, which in turn increases company value. One of the keys to this is ESG, which is a non-financial indicator that covers aspects of environmental sustainability, social issues, and corporate governance. It is useful for identifying all non-financial risks and opportunities within a company, especially given the current increase in public awareness of the environmental and social impact of companies. The application of ESG assessment lies in corporate sustainability reporting, which companies use to disclose information about their ESG implementation and performance.

However, it is known that research on the impact of ESG still yields inconsistent results, and ESG is still considered a burden for companies. Investors still do not consider ESG disclosure important due to their short-term profit orientation. In addition, public awareness, which is still not high enough, also has an impact on this. In terms of further research, a more reliable method is needed to calculate a company's ESG performance so that the results obtained can be more consistent.

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