Does Esg Increase The Firm Value?

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ABSTRACT

The sustainable concept developing in the industrial world makes stakeholders consider ESG performance in measuring company value. By disclosing sustainability reports on environmental, social, and governance aspects, it is imperative to increase the company's value and demonstrate its sustainability capabilities. Using ASEAN data from 2019-2021, this study measures the effect of ESG on firm value. With panel data and processed using eviews. ESG and separate scores (Environmental, Social, and Governance scores) significantly affect the firm's value. Control variables are company growth, leverage, and company size. Growth proved to be significantly negative, and Firm size proved to be significantly positive. Meanwhile, leverage is not proven to be significant. In developing countries, environmental performance is considered to require high ecological costs. It is an additional company expense considered burdensome and will worsen the company's financial condition. Disclosure of non-financial information harms the creation of company value which results from fulfilling the demands of stakeholders imposed on the company so that it can cause other agency conflicts. ESG performance which reduces the company's value, is due to the relatively low level of investor confidence in the signal given. Investors tend not to respond well to these signals and assume that the activities disclosed in ESG reporting are too expensive and detrimental to their interests. They are not interested in investing, which results in a decrease in market demand, which will reduce the company's value.

Keywords: ESG, Firm value, Environment score, Social score, Governance score, Sustainability