

Enhancing Firm Value through ESG Disclosure: Analyzing Non-Banking Companies in the LQ45 Index

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ABSTRACT

The fourth industrial revolution has had a significant impact on economic progress, triggering intense competition between companies to achieve their goals. One effective strategy to increase company value is to adopt sustainable financial reporting that prioritizes economic stability and inclusiveness. The aim of this research is to investigate the impact of implementing Environmental Social and social Governance (ESG) reporting on the value of non-banking companies listed on the Indonesia Stock Exchange (BEI) in the LQ 45 index during the 2021-2023 period. Using descriptive, verification and regression analysis techniques, this research shows the influence of ESG-independent variables on company value. Data was collected from the annual reports of 23 non-banking companies included in the LQ 45 index. The results of this research are that environmental and social coverage has a significant positive influence on company value, while governance coverage does not show a significant influence. In addition, increasing sales as a controlling factor does not have a significant impact on company value. In conclusion, ESG reporting can increase a company's attractiveness to investors, with environmental and social factors being key. This research suggests increasing the number and longer sample time period for future research to obtain more comprehensive results.

Keywords:

Company value, ESG, Indonesian-Stock Exchange, LQ 45.

ABSTRAK

Revolusi industri keempat memiliki dampak signifikan terhadap kemajuan ekonomi, memicu persaingan ketat antar perusahaan untuk mencapai tujuan mereka. Salah satu strategi efektif untuk meningkatkan nilai perusahaan adalah dengan mengadopsi pelaporan keuangan berkelanjutan yang mengutamakan stabilitas dan inklusivitas ekonomi. Tujuan dari penelitian ini adalah untuk menyelidiki bagaimana dampak penerapan pelaporan Environmental, Social, and Governance (ESG) pada nilai perusahaan non-perbankan yang terdaftar di Bursa Efek Indonesia (BEI) dalam indeks LQ 45 selama periode 2021-2023. Menggunakan teknik analisis deskriptif, verifikatif, dan regresi, penelitian ini mengevaluasi pengaruh variabel independen ESG terhadap nilai perusahaan. Data dikumpulkan dari laporan tahunan 23 perusahaan non-perbankan yang termasuk dalam indeks LQ 45. Hasil penelitian ini adalah pengungkapan lingkungan dan sosial memiliki pengaruh positif signifikan terhadap nilai perusahaan, sementara pengungkapan tata kelola tidak menunjukkan pengaruh signifikan. Selain itu, peningkatan penjualan sebagai faktor control tidak memiliki dampak yang signifikan terhadap nilai perusahaan. Kesimpulannya, pelaporan ESG dapat meningkatkan daya tarik perusahaan bagi investor, dengan pengungkapan lingkungan dan sosial menjadi faktor kunci. Penelitian ini menyarankan penambahan jumlah sampel dan periode waktu yang lebih panjang untuk penelitian di masa depan guna memperoleh hasil yang lebih komprehensif.

Kata Kunci:

Nilai perusahaan, ESG, Bursa Efek Indonesia, LQ 45

INTRODUCTION

The emergence of the Fourth Industrial Revolution has had a significant impact on economic advancement. Companies are increasingly competing to achieve their goals due to the high rate of economic development. Besides generating profits, the primary objective of a company is to enhance the organisation's overall value (Brealey *et al.*, 2014). An effective method to increase company value is by adopting sustainable financial reporting that prioritises economic stability and inclusivity. This can be achieved by fostering a harmonious relationship between the economic, social, and environmental components of business (Handayani, 2019).

Sustainability aspects are sometimes referred to as sustainable investing. Sustainable investing refers to investments considering various factors, including Environmental, Social, and Governance (ESG) considerations (Stobierski, 2021). Organisations use ESG criteria to assess their capacity to incorporate and implement environmental, social, and governance measures when making long-term investments (Noviarianti, 2020). According to the Global Sustainable Investment Review (2020), there has been a significant increase in the number of investors choosing to invest based on environmental, social, and governance (ESG) concerns in recent years. Over the past three years (2018-2020), the total value of global investment assets managed with Environmental, Social, and governance (ESG) strategies has increased compared to previous years. In 2020, the total amount increased to \$35.301 trillion.

The Indonesia Stock Exchange (IDX) urges the adoption of Environmental, Social and governance (ESG) principles by businesses in Indonesia to promote sustainable finance in the capital market. By considering these three factors, organisations can effectively enhance their environment and facilitate increased feedback (Kartika *et al.*, 2023). ESG factors have become crucial for institutional and individual investors (Kim & Li, 2021). The UN standards for responsible investment also encourage the inclusion of Environmental, Social, and Governance (ESG) factors in evaluating corporate performance.

Ultimately, long-term financial profitability can be achieved by improving the company's relationships with other parties (Li *et al.*, 2018). Indonesia has not yet achieved environmental preservation standards, social responsibility, and good corporate governance. Indonesia's ESG ranking is lower compared to the Philippines, Singapore, Malaysia, and Thailand. In 2019, Indonesia's capital market ranked 36th out of 46 global capital markets regarding Environmental, Social, and Governance (ESG) performance, according to the Corporate Knights ranking (Mudzakir & Pangestuti, 2023).

What benchmarks are used for long-term investment in companies Environmental, Social, and governance (ESG) factors. This allows companies to incorporate and implement regulations related to ESG aspects (Noviarianti, 2020). Companies utilise positive information to generate value from ESG. Therefore, investors who wish to motivate them to prioritize long-term profits must use ESG

information. The availability of non-financial data, such as ESG reports, has increased due to these developments, thus attracting investor interest (Bax *et al.*, 2023).

This analysis utilizes financial reports from non-banking companies listed on the Indonesia Stock Exchange (IDX) and included in the LQ45 Index. The evaluation incorporates scores provided by the KEHATI Foundation from 2021 to 2023. ESG reports are generated biannually, producing study data over six semesters from 2021 to 2023. The investigation specifically targets non-banking companies to accurately gauge the impact of environmental, Social, and Governance (ESG) factors. These factors have a more varied influence in these sectors due to broad market dynamics and sensitivity to technological changes and consumer preferences. The chosen time frame of 2021 to 2023 aligns with the KEHATI Foundation's commencement of biannual ESG score releases starting in 2021, culminating in a total of six reports over three years. This examination aims to explore how the recent implementation of Environmental, Social, and Governance (ESG) reporting affects the overall value of non-banking companies.

RESEARCH METHODS

In this study, hypotheses that analyze and validate the impact of independent variables, particularly environmental (X1), Social (X2), and governance (X3) values on the dependent variable, are tested using descriptive, verificative, and regression analysis. This study explicitly incorporates control factors for sales growth, selected based on their ability to influence outcomes and enhance the accuracy of the analysis conducted.

The data collection methodology for this research uses information from pre-existing documents obtained through the KEHATI Foundation. These documents are sourced from 23 non-banking business entities listed on the Indonesia Stock Exchange (IDX) and included in the LQ45 Index from 2021 to 2023. The impact of two or more independent variables on the dependent variable is assessed using classical assumption tests and multiple regression analysis. The t-test is employed to determine the validity of the hypotheses. By comparing the estimated t-value with the table t-value, researchers can determine whether the hypothesis is accepted or not. The F-test is used to determine whether the independent variables in the model collectively influence the dependent variable. Experiments are conducted at a significance level of 0.05.

RESULTS AND DISCUSSION

This research focuses on collecting empirical data on the elements that influence a company's value and analyzes non-banking companies listed on the Indonesia Stock Exchange (IDX) the LQ45 Index from 2021 to 2023, using a purposive sampling strategy based on specific. The study aims to understand how Environmental, Social, and Governance (ESG) factors impact company value. Through statistical analyses such as classical assumption tests, multiple regression analysis, and

hypothesis testing using t-tests and F-tests, this research validates its findings and provides insights for investors and stakeholders on sustainable investing and corporate governance in the Indonesian market.

Table 1. Sample selection results

No	Description	Quantity
1	Companies listed on the Indonesia Stock Exchange (IDX) in the LQ 45 Index	45
2	Non-banking companies listed on the Indonesia Sock Exchange in the LQ 45 Index from 2021-2023	23
3	Total samples taken (23x3 periods)	69
	Total samples	69

Source: Author's work (2024)

Table 1 shows that the Indonesia Stock Exchange (IDX) has 45 companies listed in the LQ45 Index each year. From 2021 to 2023 in **Table 2**, 23 non-banking companies were included in the LQ45 Index. Therefore, a total of 69 data points were observed 23 companies multiplied by 3 years.

Table 2. List of Noa-Banking Companies Sampled in the LQ45 Index on the Indonesia Stock Exchange for the Years 2021-2023

No	Code	Company Name
1	NDY	PT. Indka Energy Tbk
2	ADRO	PT. Adaro Frerey indonesia Tbk
3	EXCL	PT. XL Axiata Tbk
4	PGAS	PT. Perusahaan Gas Nerara Tbk
5	BR	PT Barito Pacific Tbk
6	GGRM	PT. Gudang Garam Tbk
7	ANTM_	PT. Aneka Tambang Tbk
8	ASII	PT. Astra International Tbk
9	AKRA	PT. AKR Coporindo Tbk
10	ICBP	PT. Indofood CBP Sukses Makmur Tbk
11	INCO	PT. Vale Indonesia Tbk
12	INKP	PT Indah Kiat Pulp & Paper Tbk
13	INIP	PT. Indocement Tunggal Prakarsa Tbk
14	IIMG	PT .Indo Tambangraya Megah Tbk
15	KLBE	PT. Kalbe Farma Tbk
16	MEDC	PT Medo Fnerei Intsmasional Tbk
17	PIBA	PT Bukit Asam Tbk
18	SCMA	PT. Surya Citra Media Tbk
19	SMGR	PT. Semen Indonesia (Persero) Tbk
20	TLKM	PT Telkom Indomsia (Persero Tbk
21	IPIA	PT Chandra Asi Petrochemical Tbk
22	WNIR	PT United Tractors Tbk
23	UNV	PT. Unilever Indonesia Tbk

Source: Author's work (2024)

Classical Assumption Test

Normality Test

Table 3. Normality Test

Variable	Kolmogorov-Smirnov Value	Asymp. Sig.	Description
Standardized Residual	0.051	0.2	Normal

Source: Author's work (2024)

Table 3 shows that the Kolmogorov-Smirnov (K-S) value is 0.051 and is statistically significant at 0.2. Therefore, it can be concluded that the data in the regression model is normally distributed ($p=0.2>0.05$).

Heteroskedasticity Test

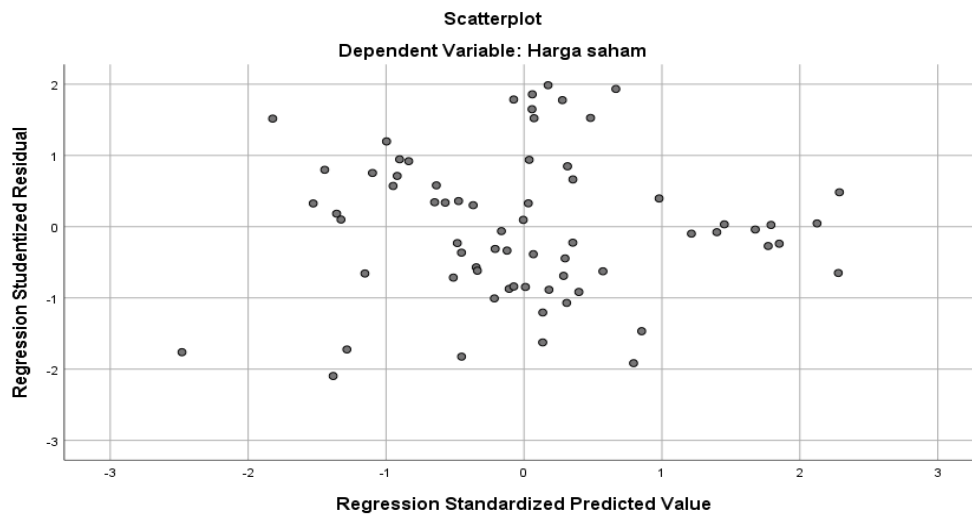


Figure 1. Scatter Plot Graph
 Source: Author's work (2024)

The output results in **Figure 1** show that the scatter plot of the five variables does not exhibit any specific pattern or systematic structure. This randomness in the scatter plot indicates that the variance of the residuals is constant across all levels of the independent variables. Therefore, it can be concluded that there is no indication of heteroskedasticity in the regression model.

Multicollinearity Test

Table 4. Multicollinearity test

Variable	Collinearity Statistic	
	Tolerance	VIF
Governance Disclosure	0.754	1.327
Environment Disclosure	0.459	2.178
Social Disclosure	0.569	1.758
Sales Growth	0.984	1.016

Dependent Variable: Stock Price

Source: Author's work (2024)

The Variance Inflation Factor (VIF) values obtained from the multicollinearity test in **Table 4** for the variables Governance Disclosure, Environmental Disclosure, Social Disclosure, and Sales Growth in the research data are 1.327, 2.178, 1.758, and 1.016, respectively. All values are below the maximum threshold of 10, the required test value. Additionally, each variable has a tolerance value of 0.754, 0.459, 0.569, and 0.984, respectively, which are > 0.1 . These results indicate that the research variables do not exhibit multicollinearity.

Autocorrelation Test

Table 5. Autocorrelation Test

Model	DL	du	4-du	DW
1	1.490	1.734	2.266	1.674

Source: Author's work (2024)

This study has three independent variables, one control variable, and one dependent variable. From the **Table 5**, it can be seen that the Durbin-Watson statistic produces a DL value of 1.490. Based on the comparison of the DW (Durbin-Watson) value, which is 1.674, and the DL value, which is 1.490, it can be concluded that there is no autocorrelation in the regression model.

Analisis Regresi Linear Berganda

Table 6. Multiple Linear Regression Analysis Results

No	Variable	Regression Coefficient	T-Statistic	Sig.
	Constant	3.222	1.109	0.272
1	Governance Disclosure	-1.090	-1.485	0.142
2	Environment Disclosure	3.444	3.732	0.000
3	Social Disclosure	-3.267	-3.192	0.002
4	Sales Growth	0.165	1.797	0.077

Dependent Variable: Stock Price

Source: Author's work (2024)

In **Table 6** if the governance disclosure, environment disclosure, social disclosure, and sales growth variables of a company are zero, the stock price will be 3.222. The governance disclosure variable has a negative impact on stock prices, meaning that each one-unit increase in governance disclosure can decrease the stock price by 1.090, assuming other independent variables remain unchanged. Conversely, the environment disclosure variable has a positive impact, where each one-unit increase will raise the stock price by 3.444. Similar to governance disclosure, the social disclosure variable has a negative on stock prices, with a decrease of 3.267 for each one-unit increase. Lastly, the sales growth variable has a positive, although small, impact where each one-unit increase in sales growth will increase the stock price by 0.165, assuming other independent variables remain constant.

Coefficient of Determination (R2) Test

Table 7. Multiple linier regression analysis results

Model	R	R Square	Adjusted R Square	Std. Error of the estimate
1	0.839 ^a	0.703	0.683	1.321

Source: Author's work (2024)

According to the model summary in **Table 7**, the correlation coefficient (R) value is 0.839, indicating a strong correlation between stock prices and independent variables such as governance disclosure, environmental disclosure, social disclosure, and sales growth. This strong correlation is evident when the value exceeds 0.8. Furthermore, the adjusted R square value, often referred to as the coefficient of determination, is 0.683. According to this analysis, 68.3% of the fluctuations in stock prices may be attributed to factors such as governance disclosure, environmental disclosure, social disclosure, and sales growth. The variables not included in this study account for the remaining 31.7%.

Hypothesis

F-Test

Table 8 shows a highly significant value of 0.000, which is less than the threshold of 0.05 (0.000<0.05). The calculated F-value of 33.972 is greater than the critical F-value of 2.515

(33.972>2.515). The conclusion from Table 8 indicates that the regression model obtained is suitable for analyzing the effect of governance disclosure, environmental disclosure, social disclosure, and sales growth on stock prices in non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange (IDX) from 2021 to 2023

Table 8. F Test results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	177.913	3	59.304	33.972	0.000 ^b
Residual	75.065	43	1.746		
Tota	252.979	46			

Source: Author's work (2024)

t-Test

Table 9. T-test results

Variable	t	Sig.	T-Table	Decription
Constant	1.109	0.272		
Governance Disclosure	-1.485	0.142	1.998	Not Significant
Environment Disclosure	3.732	0.000	1.998	Significant
Social Disclosure	-2.192	0.002	1.998	Significant
Sales Growth	1.797	0.077	1.998	Not Significant

Dependent Variable: Stock Price

Source: Author's work (2024)

The results of the hypothesis testing in this study can be explained as follows based on **Table 9** results:

1. The Effect of Governance Disclosure on Stock Prices

There is no effect of governance disclosure (X1) on stock prices. The significance value is 0.142 > 0.05, and the t-value of 1.485 is less than the t-table value of 1.998 (1.485 < 1.998).

2. The Effect of Environment Disclosure on Stock Prices

For the environment disclosure variable (X2), there is a significant positive effect on stock prices. The t-value of 3.732 is greater than the t-table value of 1.998 (3.732 > 1.998), and the significance value is 0.000 < 0.05.

3. The Effect of Social Disclosure on Stock Prices

For the social disclosure variable (X3), the results show that there is no effect of social disclosure on stock prices. The t-value of -3.192 is greater than the t-table value of 1.998 (-3.192 > 1.998), and the significance value is 0.002 < 0.05.

4. The Effect of Sales Growth on Stock Prices

For the sales growth variable (X4), the results indicate that there is no effect of sales growth on stock prices. The t-value of 1.797 is less than the t-table value of 1.998 (1.797 < 1.998), and the significance value is 0.077 > 0.05.

Based on the t-test results above, it can be concluded that the governance disclosure variable does not have a significant effect on stock prices, as the significance value is 0.142 > 0.05 and the t-value of 1.485 is less than the t-table value of 1.998. Meanwhile, the environment disclosure variable has a significant effect on stock prices with a significance value of 0.000 < 0.05 and a t-value of 3.732

greater than the t-table value of 1.998. The sales growth variable does not have an effect on stock prices, as the significance value is $0.077 > 0.05$ and the t-value of 1.797 is less than the t-table value of 1.998.

Discussion

The Effect of Governance Disclosure on Company Stock Prices

The governance disclosure variable does not have an effect on stock prices. Good corporate governance serves as a fundamental guideline for internal company management; the quality of this management impacts company performance, causing fluctuating stock prices. To enhance the company's profit value as reflected in its stock price, the company must disclose good governance (Octa, 2023). Research conducted by Angir & Weli (2024) supports this study, stating that there is an effect of ESG disclosure on company value, but with a negative direction. In contrast, the study by Melinda & Wardhani (2020) found opposite results, where the Governance Score has a significant positive effect on company value.

The Effect of Environment Disclosure on Company Stock Prices

The environment disclosure variable has a significant positive effect on stock prices. The dynamics between companies and investors can raise concerns about various information. ESG disclosure bridges the gap between investors and companies, thus minimizing institutional costs (Yu *et al.*, 2018). Research by Ammer *et al.* (2020) found that companies with better ESG ratings have healthier values. Companies are rewarded by stakeholders through increased investments by investors and greater productivity by employees, resulting in higher company value.

The Effect of Social Disclosure on Company Stock Prices

The social disclosure variable has a significant positive effect on stock prices. Achieving a high social disclosure score can be less costly and quicker. The value generated by a company during its operations is referred to as company value. This value can reflect public trust in the company's future and its ability to maximize cash flow and long-term profitability, thereby increasing investor confidence as indicated by rising stock prices (Akbar *et al.*, 2022). According to a consistent study by Aydoğmuş *et al.* (2022), social disclosure significantly affects company value. Another study by Johan & Toti (2022) also added that social disclosure influences the value of non-financial businesses listed in the SRI KEHATI index.

The Effect of Sales Growth on Company Stock Prices

The control variable, sales growth, has a negative effect on stock prices. A company's ability to grow through sales growth is crucial. The higher the company's sales growth rate, the better it is at implementing business strategies aimed at increasing company value. According to Fahmi (2016), sales growth is a ratio that measures the amount of sales and the company's ability to maintain its position in the industry and overall growth (Muhani *et al.*, 2022). Khoeriyah (2020) supports this research by

stating that sales growth does not significantly affect stock prices. One factor investors should consider when starting an investment is the value of a company.

CONCLUSION AND RECOMMENDATION

The objective of this study was to examine how governance disclosure, environment disclosure, social disclosure, and sales growth impact the stock prices of non-banking companies in the LQ45 Index on the Indonesia Stock Exchange (IDX) during the period of 2021-2023. The research sample consisted of 23 non-banking companies included in the LQ45 Index for three consecutive years, totaling 69 annual reports. Secondary data used in this study were collected through purposive sampling. The research findings indicate that:

1. Governance disclosure and stock prices do not have a significant correlation.

This study found that the disclosure of governance practices does not have a statistically significant impact on the stock prices of non-banking companies in the LQ45 Index. This suggests that investors may not consider governance disclosures as a primary factor when evaluating the stock prices of these companies, or it may indicate that governance practices are relatively standardized across these firms, reducing their perceived impact on stock prices.

2. Environment disclosure significantly affects stock prices.

The analysis revealed that environmental disclosure has a positive and significant impact on stock prices. This indicates that investors place a high value on the environmental practices and sustainability efforts of companies. Companies that actively disclose their environmental impact and sustainability initiatives are likely to attract more investment, as these disclosures can enhance the company's reputation and appeal to socially responsible investors.

3. Social disclosure significantly affects stock prices.

Similarly, social disclosure was found to have a significant positive effect on stock prices. This finding underscores the importance of corporate social responsibility (CSR) initiatives and the transparency of social practices in influencing investor decisions. Companies that report on their social initiatives, such as community engagement, employee welfare, and diversity policies, are perceived more favorably by investors, leading to higher stock prices.

Recommendations for future researchers are as follows:

1. Increase the sample size by including more companies.
2. Future studies should consider expanding the sample size to include a broader range of companies, not limited to non-banking firms. By including all companies listed in the LQ45 Index over a specific period, researchers can better understand how ESG disclosures impact stock prices across different sectors. This broader approach can provide more generalized conclusions and insights into the overall market.

3. Extend the reporting period to gather more data.

While this study used a period of three consecutive years, future research could benefit from extending this period to five consecutive years or more. A longer timeframe would provide a larger dataset, which could enhance the robustness and reliability of the findings. Additionally, analyzing a longer period may help capture longer-term trends and the sustained impact of ESG disclosures on stock prices.

4. Use alternative proxies for calculating company value.

To gain a more nuanced understanding of company value, future researchers should consider using alternative proxies beyond stock prices. This could include metrics such as earnings per share (EPS), return on assets (ROA), or market capitalization. By incorporating multiple measures of company value, researchers can better assess the comprehensive impact of ESG disclosures and provide more detailed insights into how these practices influence different aspects of corporate performance.

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