Volume 16, Nomor 1, Mei 2024, pp 27 – 40, Jurnal Akuntansi, Program Studi Akuntansi, Fakultas Bisnis, Universitas Kristen Maranatha. ISSN 2085-8698 | e-ISSN 2598-4977. http://journal.maranatha.edu

Enhancing Value: The Impact of Environmental, Social, and Governance Disclosure on Indonesian Basic Materials Sector Companies

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Received 08 January 2024; Revised 22 February 2024; Accepted 5 April 2024

Abstrak

Tujuan *- Penelitian ini bertujuan untuk mengetahui pengaruh penerapan environmental, social dan governance disclosure terhadap nilai perusahaan di sektor basic materials yang tercatat di Bursa Efek Indonesia (BEI) selama periode 2018-2022.*
Desain/Metodologi/Pendekatan *- Penelitian ini menggunakan metode kuantitatif dengan menggunakan data sekunder yang telah dipublikasikan di website resmi perusahaan dan website resmi idx. Populasi pada penelitian ini adalah perusahaan sektor basic materials yang terdaftar di BEI pada 2018-2022. Sampel dalam penelitian ini adalah 11 perusahaan selama lima tahun observasi sehingga diperoleh 55 sampel data. Teknik pengambilan sampel menggunakan teknik purposive sampling. Teknik analisis data yang digunakan dalam penelitian yaitu analisis uji asumsi klasik, uji regresi linier berganda, uji korelasi, uji determinasi, uji t, dan uji f dengan menggunakan software IBM SPSS 26.*
Temuan *- Hasil penelitian menunjukkan bahwa environmental disclosure memiliki pengaruh positif terhadap nilai perusahaan, namun social disclosure dan governance disclosure tidak menunjukkan pengaruh positif yang sama terhadap nilai perusahaan.*
Keterbatasan/Implikasi Penelitian *- Kumpulan data yang terbatas mungkin tidak sepenuhnya merangkum beragam dampak pengungkapan ESG terhadap nilai perusahaan, sehingga berdampak pada kekuatan dan kemampuan generalisasi kesimpulan penelitian ini.*

Kata Kunci:* *Environmental Disclosure, Social Disclosure, Governance Disclosure, dan Nilai Perusahaan

Abstract

Purpose - This study aims to determine the effect of the implementation of environmental, social and governance disclosure on firm value in the basic materials sector listed on the Indonesia Stock Exchange (IDX) during the 2018-2022 period.
Design/methodology/approach - This research uses quantitative methods using secondary data that has been published on the company's official website and the official IDX website. The population in this study are basic materials sector companies listed on the IDX in 2018-2022. The samples in this study were 11 companies for five years of observation so that 55 data samples were obtained. The sampling technique used purposive sampling technique. The data analysis techniques used in the study are classical assumption test analysis, multiple linear regression test, correlation test, determination test, t test and f test using IBM SPSS 26 software.
Findings - The results showed that environmental disclosure has a positive influence on firm value, but social disclosure and governance disclosure do not show the same positive influence on firm value.
Research limitations/implications - The limited data set may not fully encapsulate the diverse impacts of ESG disclosures on firm value, thus impacting the robustness and generalizability of the study's conclusions.

Keywords: Environmental Disclosure, Social Disclosure, Governance Disclosure, and Firm Value

Introduction

The development of the business world is growing along with the increasing market demand for the goods and services offered.
This will certainly increase competition and between business people competing to achieve company goals (Xaviera & Rahman, 2023).

The establishment of a company has a reason and purpose behind it. These goals can be divided into two: short-term goals and long-term goals. For short-term goals, a company aims to achieve maximum success by utilizing all of its resources. As for long-term goals, the company seeks to increase the value of its company and improve the welfare of its shareholders. Due to the ever-changing and challenging business competition, many companies focus on increasing their company value as much as possible in order to attract investors to invest in the company (Muslichah, 2020).

Firm value is the investor's perception of the company's success rate which is often associated with supply and demand which affects price movements in the capital market (Melinda & Wardhani, 2020). It also implicitly shows success in increasing shareholder welfare, which is the main goal of the company. From an investor's point of view, an increase in company value makes the company more attractive as an investment option.

Based on news quoted from Eddyelly (2023) said that there was a decrease in the value of basic materials sector companies in 2022, this was related to the decline in the Composite Stock Price Index (IHSG) in 2022 which only grew by 4.08% compared to 2021 which amounted to 10.08%. In addition, the basic materials sector index (IDX BASIC) fell 0.92% or 11.09 points to 1,191.77. This was due to the increase in average global commodity prices, which caused negative sentiment towards index issuers. The basic materials sector is very vulnerable to increases in raw materials which are the main raw material for its production and this price trend will have an impact on increasing the cost of selling prices of its constituent raw material products (Bisnis, 2022).

The issue of sustainability has become a recurring global discussion in recent years, and companies are now faced with the challenge of improving their environmental, social and governance performance and transparency. The ESG concept, which focuses on environment, social and governance, has become widely recognized since the 193-nation meeting at the United Nations in 2015. Global awareness of issues such as climate change, human rights, social inequality, and corruption has increased since the early 2000s, making ESG increasingly important for companies (Fadhillah & Marsono, 2023). In Indonesia, ESG has received great attention from the government, companies, investors, and the public. The government has made rules to encourage ESG, such as Law No. 40/2007 on corporate social and environmental responsibility, Law No. 32/2009 on environmental impact analysis, and the existence of POJK No. 51/POJK. 03/2017 which contains the obligation to publish sustainability reports. The preparation took two years. Starting in 2019, financial service providers in Indonesia are required to submit sustainability reports or Sustainable Finance Action Plans (SFAPs). Companies in other sectors and other issuers will be required to publish sustainability reports starting in 2020.

Environmental, social and governance disclosures serve to increase public understanding of sustainable investing, which is growing rapidly. Public awareness of investments that focus on environmental, social and governance has increased in recent years (Kartika et al., 2023). Environmental, social and governance disclosures made by companies are one of the communication platforms to show investors the real form of the company's responsibility and potential in efforts to improve sustainability business performance. This is also reinforced by the increasing interest of investors in companies that disclose environmental, social and governance issues in their investment decisions, so that disclosures made by companies can have a positive impact on company value in the long term.

But in fact, the disclosure of information carried out by companies related to the environment, social and governance has increased every year, but this is inversely proportional to the company's value which has decreased. Basically, if the disclosure made by the company has increased, the company value will also increase.

The increasing focus on environmental, social, and governance (ESG) transparency globally and in Indonesia reveals a mismatch between the rise in ESG disclosures and the actual value investors place on companies, particularly in the basic materials sector. Despite more companies sharing their ESG practices, this does not consistently lead to higher firm values. This inconsistency poses questions about the real impact of ESG disclosures on enhancing a company's market value, especially in markets sensitive to environmental and market changes. There's a noticeable gap in research specifically targeting the effects of ESG disclosures on the valuation of companies within Indonesia's critical basic materials sector, underscoring the need for more comprehensive studies (Kartika et al., 2023).

This research aims to analyze the connection between the level of environmental, social, and governance

(ESG) information shared and the market value of companies in the basic materials sector of Indonesia, with a focus spanning from 2018 to 2022. It intends to assess how the evolving global and local awareness of ESG issues influences investor perceptions and, in turn, company valuations in this industry. The study will identify which ESG actions significantly influence the financial valuation of these firms. Additionally, it will explore both the obstacles and driving factors that affect the success of ESG disclosures within this sector and their impact on corporate value. Finally, the research will develop practical strategies for businesses within this sector to improve their market value through effective ESG disclosure, thereby benefiting their stakeholders.

Based on the background above, the purpose of this study is to examine the effect of environmental, social and governance disclosure on firm value. So, the authors are interested in conducting research with the title "The Effect of Environmental, Social and Governance Disclosure Implementation on Firm Value (Case Study on Basic Materials Sector Companies Listed on the Indonesia Stock Exchange 2018-2022)".

Literature Review and Hypothesis

Literature Review

Legitimacy Theory

Legitimacy theory was popularized by Dwoling and Pfeffer in 1975, legitimacy theory is a theory that explains corporate policies in disclosing social and environmental information, which underlines the importance of companies recognizing and complying with the norms that apply in the society and environment in which they operate when carrying out their business activities (Wahdah & Jayanti, 2023).

Legitimacy theory focuses on the relationship between companies and society. Companies are part of the value system in society, therefore corporate values create harmony between the prevailing norms in society. Businesses can begin to manage legitimacy by changing their activities according to the social perception of society. This can influence perceptions and evaluations of the company. When a company's actions are perceived to deviate from societal norms, its legitimacy is questioned, which can lead to a variety of negative outcomes, from reduced consumer confidence to more severe financial and regulatory repercussions. Therefore, companies are motivated to engage in practices that enhance their legitimacy (Melinda & Wardhani, 2020).

In the context of legitimacy theory, these ESG disclosures serve as vital conduits through which companies demonstrate their adherence to societal standards and expectations. The act of disclosing such information can be seen as a strategic effort by companies to maintain or improve their social license to operate by aligning their practices with the evolving values and norms of society. This alignment is essential for sustaining corporate legitimacy and ensuring long-term success and acceptance in the market.

Stakeholders Theory

Stakeholder theory was developed by Edward Freeman in 1984. Stakeholder theory says that companies are not only entities that operate only for their own interests but companies must also provide benefits to their stakeholders (Ghozali, 2020).

Positive relationships with stakeholders is not merely an ethical imperative but a strategic necessity. This involves engaging with stakeholders to understand their expectations and needs and making concerted efforts to address these in the company's operational decisions and strategies. Such an approach ensures the long-term sustainability of the company by fostering loyalty, trust, and support from those who are affected by or can significantly impact the company's operations. Companies need to actively maintain positive relationships with their stakeholders, by trying to accommodate the wants and needs of stakeholders, especially those who have a direct relationship with the resources used in the company's operations, such as labor, consumers, and shareholders. One method that can be used by companies to build and improve good relationships with stakeholders is through the provision of reports that provide added value, such as sustainability reports and annual reports (Kurniawan et al., 2018).

The intersection of stakeholder theory with these aspects of ESG disclosure serves as a framework for businesses to not only align their practices with stakeholder expectations but also to promote a culture of transparency and responsibility. This approach not only enhances the company's credibility and trustworthiness but also ensures a sustainable business model that values the contributions and concerns of all stakeholders

Environmental Disclosure

Environmental Disclosure can be defined as a set of information that includes environmental management activities that occurred in the past, present, and future (Muslichah, 2020). Environmental disclosure is an effort taken by companies as a form of their commitment to the environment and surrounding communities, with the aim of overcoming potential negative impacts on the environment that may arise from company activities, both direct and indirect and to obtain investment opportunities in the future (Dewi et al., 2023). Companies are also expected to publicly disclose information about their activities that impact the environment. This disclosure is important because it helps increase the company's reputation and the company's value in the eyes of the wider public and investors (Firmansyah et al., 2021).

This is in line with research conducted by Melinda & Wardhani (2020) which says that environmental disclosure has a positive effect on company value because it is expected to provide long-term benefits for stakeholders and increase company value.

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

Social Disclosure

Social disclosure refers to the information that companies provide about their social and environmental activities, which is of interest to investors and can affect market value (Gutierrez, 2023). Social disclosure is very helpful for stakeholders and external parties of the company in monitoring the activities carried out by the company as well as providing relevant information in connection with its business activities in order to fulfill corporate social responsibility and will improve the company's reputation in the eyes of society (Sarikawi & Natalylova, 2022).

Disclosure of social information has a positive value for stakeholders influencing stakeholders' perceptions of the sustainability of the company (Muslichah, 2020). Social responsibility disclosure can provide a competitive advantage for companies because it will increase the company's reputation in the eyes of the public (Sarikawi & Natalylova, 2022).

This is in line with research conducted by disclosure of social information has a positive value for stakeholders influencing stakeholders' perceptions of the sustainability of the company (Muslichah, 2020). Social responsibility disclosure can provide a competitive advantage for companies because it will increase the company's reputation in the eyes of the public (Sarikawi & Natalylova, 2022).

This is in line with research conducted by Muslichah (2020) which states that social disclosure has a positive effect on company value, because the disclosure made illustrates the company's legitimacy in the eyes of stakeholders and can significantly increase company value. which states that social disclosure has a positive effect on company value, because the disclosure made illustrates the company's legitimacy in the eyes of stakeholders and can significantly increase company value.

H2: Social Disclosure has a positive effect on firm value.

Governance Disclosure

Governance disclosure refers to the extent to which a company publicly discloses information about its corporate governance practices (Previtali & Cerchiello, 2023). Governance Disclosure plays an important role in gaining stakeholders' trust. Governance frameworks encourage companies to look after the interests of their stakeholders as they understand that stakeholders contribute to the long-term success of the company. This is because pressure from stakeholders can make companies always act ethically in their business (Nugraheni et al., 2022).

Disclosure of information regarding governance is an important aspect that investors pay great attention to in assessing and responding to the dynamics of company shares in the capital market. Investors often assume that good and efficient corporate governance practices have a significant impact on increasing public trust and corporate value. With clear and open disclosure of governance, companies show transparency and high responsibility in providing essential information, especially related to company management and operations, which in turn can be a positive acceptance factor and increase investment interest from investors. (Firmansyah et al., 2021).

This is in line with research conducted by Aboud & Diab (2018) that states there is a significant positive influence between good corporate governance performance on company value, where companies that have higher governance performance tend to have higher company value.

H3: Governance Disclosure has a positive effect on firm value.

H4: Environmental, Social and Governance Disclosure simultaneously affect Firm Value.

Firm Value

The value of a company is a key factor that investors consider before investing. A company's share price is often considered vital data for the public, especially for those planning to invest, to assist in making investment decisions (Melinda & Wardhani, 2020). The value of a company in the eyes of investors is often measured by its stock price. A high stock price indicates a high company value. This becomes one of the important factors for investors when determining where they will invest their money. In other words, the success of a company can be measured by how effective it is in improving the welfare of its shareholders (Sarikawi & Natalylova, 2022).

Increasing the value of the company is crucial, because it has a direct effect on the increase in share price and the welfare of shareholders. For a manager, the value of the company becomes an indicator of the effectiveness of his work. If the value of the company increases, this is interpreted as an increase in business performance. It also implicitly indicates success in improving shareholder welfare, which is the main objective of the company. From an investor's point of view, the increase in the value of the company makes the company more attractive as an investment option.

Research Method

This study uses quantitative data types with descriptive statistics. The data used is secondary data obtained from annual reports and sustainability reports of basic materials sector companies for the 2018-2022 period listed on the IDX and data processing using IBM SPSS version 26. The population in this study were basic materials sector companies listed on the IDX during the 2018-2022 period, the samples were selected using purposive sampling method. The criteria for selecting these samples, namely:

Table 1
Sample Criteria

No	Sample Selection Criteria	Number of Companies
1.	Basic material sector companies listed on the IDX for the period 2018-2022	103
2.	Basic materials sector companies that IPO after the period 2018-2022	(33)
3.	Basic material sector companies that do not present complete annual reports for the period 2018-2022	(5)
4.	Basic material sector companies that do not present a complete sustainability report for the period 2018-2022	(54)
Total Research Sample (5 years)		11

Source: Processed Data (2024)

Operational Variables

Environmental Disclosure

Environmental disclosure in this study is measured using a proportion ratio based on GRI 400 guidelines which has 36 indicators (Muslichah, 2020), can be calculated by the formula:

$$ED = \frac{\text{Number Disclosed}}{36}$$

Social Disclosure

Social disclosure in this study can be measured using a proportion ratio based on the GRI 300 guidelines which has 36 indicators (Sarikawi & Natalylova, 2022), can be calculated by the formula:

$$SD = \frac{\text{Number Disclosed}}{36}$$

Governance Disclosure

Governance disclosure in this study which is disclosed in the sustainability report for the 2018-2020 period can be measured using a proportion ratio based on the GRI 102 guidelines which has 22 indicators (Firmansyah et al., 2021), can be calculated by the formula:

$$GD = \frac{\text{Number Disclosed}}{22}$$

Then, Governance disclosure disclosed in the 2021-2022 period sustainability report can be measured using a proportion ratio based on the GRI 2 guidelines which has 13 indicators (Firmansyah et al., 2021), can be calculated by the formula:

$$GD = \frac{\text{Number Disclosed}}{13}$$

Firm Value

The measurement of firm value in this study is measured using the Tobin's Q formula (Melinda & Wardhani, 2020), namely:

$$Tobins\ 'Q = \frac{\text{MVE + Debt}}{\text{Total Assets}}$$

Description:
MVE: Closing share price x number of shares outstanding

Results and Discussion

Based on the results of data testing using the help of IBM SPSS version 26 software, the results of descriptive statistical tests are obtained in the following table:

Table 2
Descriptive Statistical Test Result

	N	Min	Max	Mean	Std. Dev
X1_ED	55	.03	.89	.47	.22
X2_SD	55	.08	1.00	.49	.23
X3_GD	55	.05	1.00	.36	.43
Y	55	.13	4.15	1.44	.78
Valid N	55				

Source: Processed Data (2024)

Based on table 2, it can be seen that each variable has an average value, minimum value and maximum value. The highest value of the three independent variables in this study, namely Social Disclosure (X2) and Governance Disclosure (X3), is 1.00. While the highest value for the dependent variable in this study is 4.15.

Classical Assumption Test

The classic assumption tests used in this study are normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

Normality Test

Table 3
Normality Test Results

One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	.200[c,d]

Source: Processed Data (2024)

Based on table 3, the value of Asymp. Sig. (2-tailed) to 0.200, this value is greater than the value of a = 0.05. So, it can be concluded that the test results above the data are normally distributed.

Multicollinearity Test

Table 4
Multicollinearity Test Results

Coefficients^{a}

Model		Collinearity Statistics Tolerance	VIF
1	Environmental Disclosure	.983	1.018
	Social Disclosure	.989	1.012
	Governance Disclosure	.984	1.016

Source: Processed Data (2024)

Based on table 4, the three independent variables have a tolerance value> 0.10 and a VIF value < 10. So, it can be concluded that there is no multicollinearity.

Heteroscedasticity Test

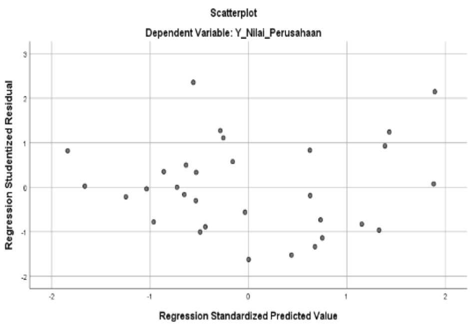

Figure 1
Heteroscedasticity Test Results
Source: Processed Data (2024)

Based on Figure 1, it can be seen in the scatterplot graph that there is no clear pattern or it is said that the points spread randomly. So, it can be concluded that the data does not occur heteroscedasticity.

Autocorrelation Test

Table 5
Autocorrelation Test Results
Model Summary^{b}

Model	Durbin-Watson
1	2.196

Source: Processed Data (2024)

From the results of the autocorrelation test in table 5, there is a Durbin-Watson value of 2.196. Furthermore, this value is compared with the Durbin-Watson table with a significant level of α = 5%, a sample size of 31 (n) and a total of 3 independent variables. Then the dU value obtained is 1.650. Then the Durbin-Watson value can be explained as follows:

= dU < d < 4 - dU
= 1,650 < 2,196 < (4-1,650)
= 1,650 < 2,196 < 2,350

Based on these calculations, it can be concluded that in this study there is no autocorrelation, either positive or negative, with the decision not being rejected, which indicates that this study is free from autocorrelation problems.

Multiple Linear Regression Test

Table 6
Multiple Linear Regression Test Results
Coefficients^{a}

Model	Unstandardized Coefficients	
	B	Std.Error
(Constant)	.491	.318
X1_ED	1.887	.385
X2_SD	-.302	.435
X3_GD	-.578	.305

Source: Processed Data (2024)

Based on table 6, the multiple linear regression equation in this study, namely:

Y = 0,491 + 1,887X1 – 0,302X2 – 0,578X3 + ϵ.

The multiple linear regression equation is interpreted as follows:

1. The constant value of 0,491 indicates the coefficient of the dependent variable which is influenced independent variable. It shows that if the independent variable does not exist, the dependent variable will change.
2. The environmental disclosure (X1) regression coefficient value of 1,887 indicates that the environmental disclosure variable has a positive influence on firm value. If the X1 variable increases by 1%, it will be followed by an increase in the dependent variable coefficient of 1,887 with the assumption that other variables are not examined in this study.
3. The regression coefficient value of social disclosure (X2) of -0,302 indicates that the social disclosure variable has a negative influence on firm value. If the X3 variable increases by 1%, it will be followed by a decrease in the dependent variable coefficient of -0,302 with the assumption that other variables are not examined in this study.
4. The governance disclosure (X3) regression coefficient value of -0,578 indicates that the governance disclosure variable has a negative influence on firm value. If the X3 variable increases by 1% it will be followed by a decrease in the dependent variable coefficient of -0,578 with the assumption that other variables are not examined in this study.

Correlation Analysis Test

Table 7
Correlation Analysis Test Result
Correlation

		X1	X2	X3	Y
X1	Pearson Correlation	1	-.084	.107	.653*
X2	Pearson Correlation	-.084	1	-.075	-.132
X3	Pearson Correlation	.107	-.075	1	-.181
Y	Pearson Correlation	.653*	-.132	-.181	1

Source: Processed Data (2024)

Table 8
Correlation Analysis Test Interpretation Results

Variables	Correlation Coefficient	Coefficient Interval	Interpretation
X1_ED	0,653	0,40-0,599	Medium
X2_SD	-0,132	0,00-0,199	Very Low
X3_GD	-0,181	0,00-0,199	Very Low

Source: Processed Data (2023)

Based on table 8, the results of the interpretation of the partial correlation test of environmental disclosure with firm value have a moderate level of relationship between the two variables. The positive correlation coefficient value indicates that any increase in environmental disclosure will include an increase in firm value.

While the results of the interpretation of social disclosure and governance disclosure have a very low level of relationship. This shows that any increase in social disclosure and governance disclosure will be accompanied by a decrease in firm value.

Coefficient of Determination Analysis Test Results

Table 9
Determination Coefficient Test Results
Model Summary^b

Model	R	R Square	Adj R Square	Std.Error
1	.703^a	.495	.439	.243

Source: Processed Data (2024)

Kd = R² x 100%
= (0,703) ² x 100%
= 49,5%

Based on table 9 and the results of the above calculations, it can be concluded that the analysis of the coefficient of determination of 49.5% means that 49.5% of firm value is influenced by the independent variables in this study, namely environmental disclosure, social disclosure and governance disclosure. While the other 50.50% is influenced by other variables outside the study.

Results of the t-test

Table 10
Results of the t-test
Coefficients^a

Model	t	Sig.	Information
(Constant)	1.547	.134	
X1_ED	4.896	.000	Accepted
X2_SD	-.695	.493	Rejected
X3_GD	-1.898	.068	Rejected

Source: Processed Data (2024)

Results of the f-test

Tabel 11
Results of the f-test
ANOVA^a

Model	Sum of Square	df	Mean Square	f	Sig
1 Regression	3.018	3	1.006	8.966	.000^b
Residual	3.030	27	.112		
Total	6.048	30			

Source: Processed Data (2024)

Table 12
Results and Explanation of the t Test

Result	Explanation
The significance level of environmental disclosure and firm value is 0,000 < 0,005. The value of t_{count} on the environmental disclosure variable is 4.896 > 2.008.	Environmental disclosure has a positive and significant effect on firm value. The conclusion is that H0 is rejected and Ha is accepted.
The significance level of social disclosure and firm value is 0,493 < 0,005. The value of t_{count} on the social disclosure variable is -0.695 > 2.008.	Social diclosure has no positive and effect on firm value. The conclusion is that H0 is accepted and Ha is rejected.
The significance level of governance disclosure and firm value is 0,068 < 0,005. The value of t_{count} on the social disclosure variable is -1.898 > 2.008.	Governance disclosure has no positive and effect on firm value. The conclusion is that H0 is accepted and Ha is rejected.

Source: Processed Data (2024)

Table 13
Results and Explanation of the f Test

Results	Explanation
The f test result is 8.966 with a significance level of 0.000 <0.05 and F count of 8.966 < from F table which is worth 2.7979.	Simultaneously independent variables (environmental, social and governance disclosure) affect the dependent variable (firm value).

Source: Processed Data (2024)

The Effect of Environmental Disclosure on Firm Value

The results of partial hypothesis testing or simultaneous hypothesis testing that environmental disclosure positively impacts firm value in the examined sector, aligning with legitimacy theory's premise.

Legitimacy theory suggests that companies can secure their social license to operate by aligning their activities with societal expectations and norms. The positive correlation between environmental disclosure and firm value corroborates the idea that transparency regarding environmental initiatives can enhance a company's reputation, thereby increasing its attractiveness to investors and consumers who are increasingly concerned about sustainability.

This is consistent with prior studies by Melinda & Wardhani (2020) and Aboud & Diab (2018) which also identified a positive relationship between environmental disclosure and firm value. From a stakeholder theory perspective, this reflects companies addressing the environmental concerns of their stakeholders, including customers, communities, and investors, thereby fostering goodwill and support that translates into increased firm value. Thus, environmental disclosure is a factor that can affect the increase and decrease in firm value.

The Effect of Social Disclosure on Firm Value

The results of partial hypothesis testing or simultaneous hypothesis testing that have been carried out, it can be seen that the social disclosure variable partially has no positive effect on firm value in basic materials sector companies listed on the Indonesia Stock Exchange for the period 2018-2022.

This outcome challenges stakeholder theory to some extent, suggesting that not all stakeholder interests, particularly concerning social issues, are valued equally across industries or impact firm value directly. It may also reflect a gap between companies' social disclosure practices and what stakeholders consider meaningful or relevant. From the legitimacy theory perspective, this suggests that social practices and reporting, in this context, may not be critical components for maintaining or enhancing the companies' legitimacy in the eyes of their stakeholders.

The results of this study are in line with research conducted by Firmansyah et al. (2021) and Sarikawi & Natalylova (2022) which say that social disclosure has no effect on firm value. This is also supported by the level of correlation between social disclosure and firm value which has a very low relationship, this means that companies that increase their social disclosure do not guarantee that firm value and investor interest will increase. Therefore, companies do not make social practices and reporting a top priority in order to increase company value. Thus, social disclosure is not a factor that can affect the increase and decrease in firm value.

The Effect of Governance Disclosure on Firm Value

The results of partial hypothesis testing or simultaneous hypothesis testing that have been carried out, it can be seen that the governance disclosure variable partially has no positive effect on firm value in basic materials sector companies listed on the Indonesia Stock Exchange for the period 2018-2022.

According to stakeholder theory, this would suggest that governance issues might not be at the forefront of stakeholders' concerns for firms in the basic materials sector, or that such disclosures are not meeting stakeholder expectations in terms of transparency or relevance. In terms of legitimacy theory, this indicates that governance practices and their disclosure may not significantly contribute to the company's legitimacy or perceived value, possibly due to a lack of enforcement or perceived sincerity in these disclosures.

The results of this study are in line with research conducted by Nurfauziah & Utami (2021) and Firmansyah et al. (2021) which say that governance disclosure has no effect on firm value. This is also supported by the level of correlation between governance disclosure and firm value which has a very low relationship, which means that companies that increase governance disclosure do not guarantee that firm value and investor interest will increase. Investors assume that governance disclosures made by companies are only voluntary and there are no sanctions if the company does not implement them. As a result, corporate governance disclosure is only limited to fulfilling administrative requirements but has not been reflected in the company's performance or activities. Thus, governance disclosure is not a factor that can affect the increase and decrease in firm value.

Conclusion and Recommendation

Conclusion

The research uncovers a positive correlation between environmental disclosure and firm value within this sector. This outcome implies that companies demonstrating transparency regarding their environmental initiatives showcase a dedication to ecological stewardship. This commitment not only improves their public image but also resonates positively with investors, thereby elevating their market valuation. Contrary to environmental disclosure, the findings reveal that practices of social and governance disclosure do not markedly influence the firm value within the examined sector. This indicates that increasing the level of transparency in social and governance affairs, in isolation, does not necessarily lead to heightened investor interest or an augmented company value, particularly within the specified timeframe and sector.

A significant constraint of the study is its reliance on a limited sample size, consisting merely of 11 companies from the basic materials sector, constrained by the lack of widespread sustainability reporting within this group. This small sample size hampers the breadth and depth of the findings, limiting their application across the broader industry. The limited data set may not fully encapsulate the diverse impacts of ESG disclosures on firm value, thus impacting the robustness and generalizability of the study’s conclusions.

The study reinforces the importance of environmental disclosure while offering critical insights into the nuances of stakeholder theory and legitimacy theory as they apply to social and governance disclosures. These insights should guide future corporate practices and research, aiming for a deeper understanding of how different forms of disclosure influence firm value in varying contexts.

Based on these reflections, future avenues of research should consider broadening the data set to include a larger number of companies, potentially across varied sectors, to enrich the reliability and applicability of the findings.

Recommendation

1. For future research to explore other independent variables that may affect firm value, such as risk management policies or technological innovation.
2. This research focuses on basic materials sector companies. Therefore, for future research, it is recommended to choose samples from other sectors listed on the Indonesia Stock Exchange. This aims to make comparisons regarding the value of companies in these sectors.
3. For future research, it is recommended that researchers expand the sample size and also expand the research time period. Most likely, along with the latest regulations and business developments there will be an increase

in the number of companies that prepare sustainability reports over time.

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