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ESG Leaders Index 2021–2023: ESG Disclosure, Capital Structure, and Profitability on Company Value

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ABSTRACT

During the period 2021–2023, this study investigates the impact of ESG disclosure, capital structure, and profitability on company value listed in the ESG Leaders index. This quantitative research uses an associative problem formulation. The companies included in the ESG Leaders index are the subjects of this research. For this research, 17 companies were selected through a purposive sampling technique over three periods (2021–2023). Overall, 51 samples were taken for this study. This study uses multiple linear regression analysis conducted using the SPSS 23 program. The research shows that ESG disclosure decreases company value, profitability increases company value, and capital structure does not. These findings provide insights for practitioners and policymakers in managing ESG-related activities.
Keywords*: Company value, ESG disclosure, Capital structure, Profitability, ESG Leaders Index, ESG.*

ABSTRAK

Selama periode 2021–2023, penelitian ini menyelidiki dampak pengungkapan ESG, struktur modal, dan profitabilitas terhadap nilai perusahaan yang terdaftar dalam indeks ESG Leaders. Penelitian kuantitatif ini menggunakan formulasi masalah asosiatif. Perusahaan yang termasuk dalam indeks ESG Leaders adalah subjek penelitian ini. Untuk penelitian ini, 17 perusahaan dipilih melalui teknik purposive sampling selama tiga periode (2021–2023). Secara keseluruhan, 51 sampel diambil untuk penelitian ini. Penelitian ini menggunakan analisis regresi linier berganda yang dilakukan dengan menggunakan program SPSS 23. Penelitian menunjukkan bahwa pengungkapan ESG menurunkan nilai perusahaan, profitabilitas meningkatkan nilai perusahaan, dan struktur modal tidak. Temuan ini memberikan wawasan bagi praktisi dan pembuat kebijakan dalam mengelola kegiatan terkait ESG.
Kata Kunci: Nilai Perusahaan, Pengungkapan ESG, Struktur Modal, Profitabilitas, indeks ESG Leaders, ESG.

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INTRODUCTION

Investors play an important role in the capital market to maintain the stability of a country's economy. According to Musran (2022), the capital market is the leading indicator that drives overall economic growth. Since 2021–2023, Indonesia's capital market has increased. Figure 1 shows the increase in the number of investors in the capital market. Figure 1 shows the number of investors increased from 7,489,337 in 2021 to 10,311,152 in 2022 (an increase of 37.68% or 2,821,815) and 12,168,061 in 2023 (an increase of 18.01% or 1,856,909). This increase indicates that the public is becoming more interested in the capital market. With this development, investors increasingly need company transparency (Liu et al., 2023). This demand encourages companies to maintain sustainable development (Pratiwi et al., 2022). The company's reputation can be enhanced through transparency in ESG Disclosure, which can attract investor interest and impact the company's value. Through OJK Regulation Number 51/POJK.03/2017 and the sustainable finance roadmap Phase I 2015-2019 and Phase II 2021-2025, the Indonesian government responds to sustainability demands to support sustainable development in Indonesia. It encourages business practices to implement social and environmental responsibility (Ariasinta et al., 2024).

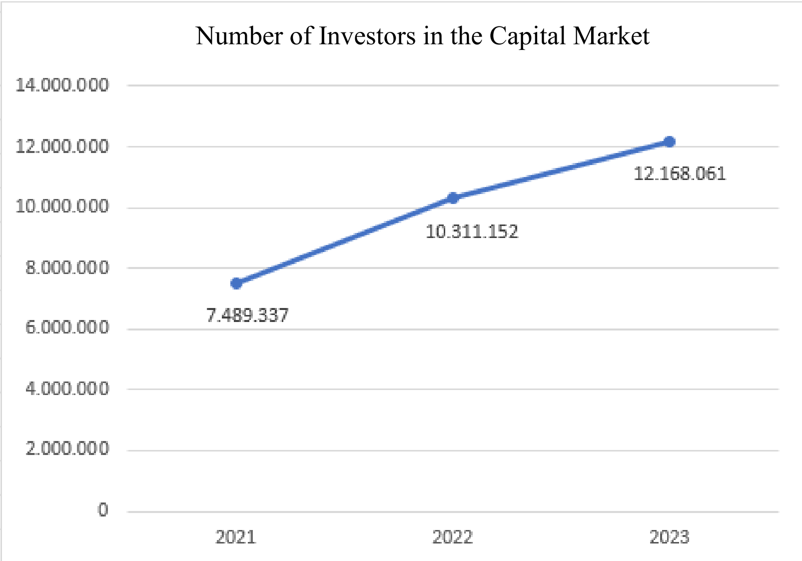

Figure 1. Number of Investors Participating in the Capital Market

Four ESG sustainability indices in Indonesia consist of IDX ESG Leaders, which includes companies that demonstrate outstanding performance in sustainability practices; SRI Kehati, which focuses on investments oriented towards environmental and social aspects; ESG Sector LeadersIDX Kehati, which highlights leading companies in each industrial sector; and ESG Quality 45IDX Kehati, which evaluates the quality of companies based on criteria set by ESG (Negara et al., 2024). Figure 2 compares the Indonesia Stock Exchange index from 2021–2023, focusing on environmental, social, and governance aspects. Figure 2 shows the growth of the ESG Leaders Index at only 7.03%. This is much lower than the growth of other indices, such as SRI-KEHATI 15.55%, ESG Sector Leaders IDX KEHATI 16.16%, and ESG Quality 45 IDX KEHATI 18.62%.Investors may hesitate to invest due to this low growth because of concerns about inadequate returns. As a result, investors' assessment of sustainability and social responsibility can influence their investment decisions. As a result, it is important to consider the performance of the ESG Leaders Index and the company's stock price.

The value of a company can be seen from its stock price in the capital market (Heng, V. V. and Nugroho, 2023). A high stock price increases the company's value and enhances investors' welfare and confidence in its performance and prospects (Kurniawan G. G., 2020).To compete and

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thrive in the dynamic global market, the company's current value is centered on developing innovative, adaptive, and sustainability-oriented strategies (Zainudin et al., 2024). Financial and non-financial factors can influence the value of a company.

ESG Disclosure is a non-financial component that affects a company's value (Christy E. & Sofie, 2023). It measures a company's sustainability and social impact through three dimensions: environmental, social, and governance. ESG enhances the reputation and trust of investors in the company.

Figure 2. Comparison of the Sustainability Index

According to stakeholder theory, companies that disclose ESG demonstrate their commitment to their responsibilities, which increases customer and investor trust (Adhi, 2023). Because many companies are still unable to implement the concept of sustainability publicly, the application of ESG in Indonesia is still very new (Kartika et al., 2023). Previous studies on the impact of ESG disclosure show varied results.According to Vivianita et al. (2023), Adhi & Cahyono Wati (2023), and Sabatini & Utama (2023), ESG performance increases a company's value. On the contrary, according to the research by Ariasinta et al. (2024) and Ningwati et al. (2022), ESG disclosure negatively impacts company value. Capital structure affects the financial components. It can influence the company's value by examining the relationship between the use of debt and equity through the cost of capital (Mahanani & Kartika, 2022). By optimizing the proportion of debt and equity, the company can reduce its total cost of capital. With this optimization, the company can increase its value, attract investors, and strengthen its position in the market.

Previous research on how capital structure affects company value has not revealed many findings. However, according to Paramita and Devi (2024), Novitasari R. and Krisnando (2021), and Purwanti (2020), capital structure significantly affects company value. However, according to research conducted by Rezeki et al. (2023) and Maharani and Kartika (2022), the capital structure does not influence the company's value. Profitability is an additional financial component that affects a business's value. Profitability information also helps investors make decisions (Satwika A. & Wirama, 2024). A high level of profitability is usually indicated in percentage form and shows that the business can generate significant profits from its operations (Puspitasari & Rahman, 2024). According to signaling theory, information about a company's profitability can send positive signals to the market and increase investor confidence, enhancing the company's value.

Previous research has found many findings on how profitability affects company value.According to Nabilatuttaqiyya & Anwar (2024), Rezeki et al. (2023), and Purwanti (2020), profitability has a positive impact on company value. However, studies by Alida and Sulastiningsih (2024) and Maharani and Kartika (2022) found that profitability does not influence the company's value.

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METHOD

This research uses a type of quantitative research. Quantitative research, which originates from positivism, examines a specific population or sample to test the established hypothesis. The formulation of this research uses an associative approach. An associative formulation is a relationship between two or more coincident variables (Sugiyono, 2019). In this study, 30 companies are included in the ESG Leaders index. In this study, the purposive sampling method was used. The purposive sampling method uses specific considerations (Sugiyono, 2019). In tabel 1, the criteria used to select the sample for this research. Based on the sampling criteria mentioned above, table 2 of this research sample involves 17 companies.

Table 1. Criteria for the Sample

Sample Criteria	Sample Size
Population: Companies listed in the ESG Leaders index	30
Companies that exited the ESG Leaders index between 2021-2023	(11)
Companies that did not issue sustainability reports	(2)
Total Sample	17
Number of Observations (years)	3
Total Observations for All Samples	51

Table 2. Research sample

No.	Ticker symbol	Company names
1	ACES	Ace Hardware Indonesia Tbk.
2	AKRA	AKR Corporindo Tbk.
3	ASSA	Adi Sarana Armada Tbk.
4	BBCA	Bank Central Asia Tbk.
5	BBNI	Bank Negara Indonesia (Persero) Tbk.
6	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
7	BMRI	Bank Mandiri (Persero) Tbk.
8	BSDE	Bumi Serpong Damai Tbk.
9	CTRA	Ciputra Development Tbk.
10	JSMR	Jasa Marga (Persero) Tbk.
11	MAPI	Mitra Adiperkasa Tbk.
12	PWON	Pakuwon Jati Tbk.
13	SCMA	Surya Citra Media Tbk.
14	TBIG	Tower Bersama Infrastructure Tbk.
15	TLKM	Telkom Indonesia (Persero) Tbk.
16	TOWR	Sarana Menara Nusantara Tbk.
17	UNVR	Unilever Indonesia Tbk.

The data analysis method is multiple linear regression with SPSS 23. This process involves various steps to achieve the research objectives, including data grouping, processing, interpretation, and conclusion drawing (Sugiyono, 2019). Classical assumption tests (such as normality test, heteroscedasticity, multicollinearity, and autocorrelation), descriptive statistical tests, multiple linear regression, F-test, t-test, and coefficient of determination are used in this analysis.

Conceptual framework

To increase the company's value, ESG disclosure can enhance public trust and attract investors. The capital structure determines the risks and costs that the company must bear, which impacts the final value of the company. The capital structure consists of debt and equity.

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Profitability shows how well a company can generate profits that enhance its cash flow and dividend potential. This study will investigate how these three components correlate with business value. This will also provide new insights into the factors that influence business performance in the era of sustainability. The following image shows Figure 3.

Hypothesis

Based on the previously mentioned conceptual framework, the following hypothesis is proposed:
H1: During 2021–2023, the value of companies listed in the ESG Leaders Index is positively influenced by ESG Disclosure.
H2: During 2021–2023, the value of companies listed in the ESG Leaders Index was positively influenced by capital structure.
H3: During 2021–2023, profitability enhanced the value of companies listed in the ESG Leaders Index.

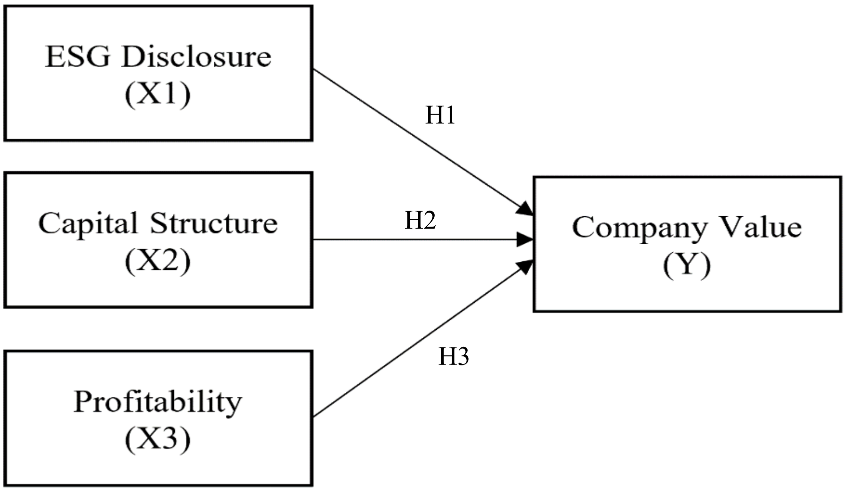

Figure 3. The Relationship between Variables

Operational Definition
Independent Variable (X)

The following are the independent variables used in this research:

1. ESG disclosure (X1)
   In this study, ESG disclosure is proxied by the ESG score based on GRI standards. According to data publicly disclosed through the company's sustainability report, the ESG score indicates the effectiveness level of a company. Business sustainability performance positively correlates with higher scores, increasing business value (Melinda & Wardhani, 2020). To calculate the ESG Score, the following formula is used:

$$ESGj = \frac{Sum\ of\ company's\ disclosure\ item}{Total\ of\ GRI's\ Disclosure}$$

Source: (Ghazali & Zulmaita, 2020)

2. Capital structure (X2)
   DER projects the capital structure. With a higher DER, most of the company's financing relies on debt. This will reduce the tax costs incurred by the business, increasing efficiency (Saddam & Sarwani, 2021).To calculate the Debt to Equity Ratio (DER), the following formula is used:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Source: (Kasmir, 2019, p. 159)

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3. Profitability (X3)
   ROE measures profitability. With a high ROE ratio, the company can increase earnings per share and become more attractive to potential investors. The company's value generally increases with the rise in stock demand (Dewi et al., 2022). Return On Equity (ROE) is calculated using the following formula:

$$ROE = \frac{Earning\ After\ Interest\ and\ Tax}{Equity}$$

Source: (Kasmir, 2019, p, 206)

Dependent Variable (Y)
Tobin's Q
The value of the company proxied by QTobin is the dependent variable of this research. This method is used to determine whether the replacement cost of the company is comparable to its market value (Kartika et al., 2023). Here is the Tobin's Q formula:

$$Tobin'sQ = \frac{Total\ market\ value + Total\ book\ value\ of\ liabilities}{Total\ book\ value\ of\ assets}$$

Source: (Melinda & Wardhani, 2020)

RESULTS

Statistics for Description

Table 3. Result of statistic description

Variable	N	Minimum	Maximum	Mean	Std. deviation
ESG Score	51	0.35	0.89	0. 5735	0.13774
DER	51	0.22	6.63	2. 5418	2.02709
ROE	51	0.00	1.42	0.2071	0.29935
TobinsQ	51	0.71	10.57	1.8884	1.99604

The following is a descriptive statistical explanation for the variables shown in table 3 used:

1. ESG disclosure proxied through the ESG score shows that PT Jasa Marga (Persero) Tbk had a minimum value of 0.35 in 2021. This variable has the highest value of 0.89, held by Bank Negara Indonesia (Persero) Tbk in 2023. Investors may be hesitant because the company is considered less concerned with governance and the environment due to its low ESG score. Investors looking for companies with responsible and sustainable business practices will be more interested in high ESG scores. The average ESG score (mean) is 0.5735, with a standard deviation of 0.13774. This indicates that the mean value is greater than the standard deviation, meaning the data distribution is relatively flat, and the ESG disclosure variable appears to show good results.
2. The capital structure proxied by DER shows that PT Ace Hardware Indonesia Tbk had a minimum value of 0.22 in 2022. Bank Negara Indonesia (Persero) Tbk had a maximum value of 6.63 in 2021. Companies with a low DER are safer for investors who avoid risk. A high DER is more attractive to investors willing to take risks because it has the potential for significant profits. The average DER value (mean) is 2.5418, with a standard deviation 2.02709. This indicates that the mean value is greater than the standard deviation, which means that the data distribution is flat, and the capital structure variable appears to have good results.
3. Profitability proxied by ROE shows that PT Adi Sarana Armada Tbk had a minimum value of 0.00 in 2022. This variable has the highest value of 1.42, held by Unilever Indonesia Tbk in 2023. A high ROE indicates good financial performance and is preferred by investors seeking maximum returns. On the other hand, a low ROE indicates a company that is less efficient in

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generating profit from equity, making it less attractive to investors. The average ROE value is 0.2071, with a standard deviation of 0.29935. Significant variability is indicated by the mean value being smaller than the standard deviation.

4. According to the company's value proxied by TobinsQ, PT Bumi Serpong Damai Tbk had a minimum value of 0.71 in 2022. This variable has the highest value of 10.57, held by Unilever Indonesia Tbk in 2022. A low Tobin's Q indicates that the market values the company lower than the value of its assets, suggesting that the company is not attractive to investors or its assets are not being utilized well. Tobin's high Q indicates that the market values the company higher than the value of its assets, which suggests good growth prospects and makes it more attractive to investors. With a standard deviation value of 1.99604, the average (mean) Tobin's Q value is 1.8884. Significant variability is indicated by the mean value being smaller than the standard deviation.

Classic Assumption Test
Normality Test

Table 4. Results of normality test

	P value	**Result**
Asymp. Sig. (2-tailed) > 0,05	0.200	Data is normally distributed.

Value Kolmogorov-Smirnov has an Asymp, as shown in Table 4. The two-tailed Sig is 0.200, greater than 0.05. Therefore, the regression model meets the normality assumption and can be further tested.

Heteroscedasticity Test

Table 5. Results of the heteroscedasticity test

Variable	**Sig > 0,05**	**Result**
ESG *Score*	0.082	No heteroscedasticity occurs.
DER	0.509	No heteroscedasticity occurs.
ROE	0.831	No heteroscedasticity occurs.

As shown in Table 5, the ESG disclosure variable, capital structure, and profitability are not heteroscedastic, so the subsequent trial can be conducted.

Multicollinearity Test

Table 6. Results of the multicollinearity test

Variable	**Tolerance≥ 0,10**	**VIF≤ 10**	**Result**
ESG *Score*	0.998	1.002	There is no multicollinearity.
DER	0.818	1.222	There is no multicollinearity.
ROE	0.820	1.219	There is no multicollinearity.

Table 6 shows that the tolerance values for all variables are greater than 0.10, and the VIF values are less than 10. This indicates that the regression model does not experience multicollinearity issues.

Autocorrelation Test

Table 7. Results of the autocorrelation test

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	0.778[a]	0.605	0.575	0.16954	2.026

The Durbin-Watson value of 2.026 was found in Table 7. With a sample size (N) of 43 and several independent variables (k) of 3, this value is compared with the Durbin-Watson table value

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at a 5% significance level. The value of dL is 1.3663, the value of dU is 1.6632, and the value of 4-DU is 2.3368, according to the values in the Durbin-Watson table. This indicates that in the regression model, there is no autocorrelation, with DW values ranging from 1.6632 to 2.026 to 2.3368.
F-test

Table 8. Results of the F-test

F	Sig. <0.05	Result
19.904	0.000	Feasible Regression Model

As shown in Table 8, the F-test results indicate that the variables of disclosure, profitability, and ESG capital structure are used well or appropriately. The significance value is 0.00 < 0.05.

Coefficient of Determination Test

Table 9. Results of the coefficient of determination test

R Square	Adjusted R Square
0.605	0.575

The results of the research's coefficient of determination test indicate that, with an Adjusted R-square value of 0.575, the variables ESG disclosure (ESG score), capital structure (DER), and profitability (ROE) can each influence or explain the company's value (TobinsQ) by 57.5% and 42.5%, respectively. These are factors that are not explained in the research.

Multiple Linear Regression Analysis

$$\mathbf{Y = 0.067 - 0.778X1 - 0.010X2 + 0.181X3}$$

Explanation:

Y = Company Value
X1 = ESG Disclosure
X2 = Capital Structure
X3 = Profitability

The previous regression equation can be interpreted as follows:

1. The constant 0.067 indicates that the intensity of the company's value is 0.067 when ESG disclosure, capital structure, and profitability are assumed to remain constant or equal to 0.
2. The X1 variable ESG disclosure regression coefficient of -0.778 indicates that assuming other variables remain constant or equal to zero, each one-unit increase in the ESG disclosure variable will decrease (-) 0.778 in the company's value.
3. The regression coefficient of the variable X2 capital structure of -0.010 indicates that assuming other variables remain constant at zero, each one-unit increase in the capital structure variable will decrease the company's value by -0.010.
4. The regression coefficient of the profitability variable X3 of 0.181 indicates that assuming other variables remain constant at zero, each one-unit increase in the profitability variable will increase the company's value by 0.181.

Analysis Results

Table 10. Results of the t-test

Variable	Regression coefficient	t hitung	t tabel	Sig.	Result
ESG (X1)	-0.778	-6.108	2.0227	0.000	Hypothesis rejected
DER (X2)	-0.010	-0.218	2.0227	0.829	Hypothesis rejected
ROE (X3)	0.181	4.305	2.0227	0.000	Hypothesis accepted

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The results are shown in table 10, which can be described as follows:

1. Hypothesis 1: ESG disclosure has a positive impact on company value
   The ESG disclosure variable (X1) may affect the company's value because its significance value is 0.000, which is less than 0.05 (0.00 < 0.05). The calculated t-value is greater than the t-table value (6.108 is greater than 2.0227). As the regression coefficient of -0.778 indicates, ESG hurts the company's value. Therefore, the first hypothesis is incorrect.
2. Hypothesis 2: The value of the company is enhanced by the capital structure
   The capital structure variable (X2) does not significantly impact the company's value because the significance value of 0.829 is greater than 0.05 (0.829 is greater than 0.050), and the calculated value is lower than the t-table value (0.218). Therefore, the hypothesis of this research is not correct.
3. Hypothesis 3: The value of the company is influenced by profitability
   The profitability variable (X3) has a significance value of 0.000, which is less than 0.05 (0.00 < 0.05), and the calculated value is greater than the t-table value (4.305 greater than 2.00227). This indicates that the profitability variable significantly impacts the company's value. With a positive regression coefficient of 0.181, it can be concluded that the profitability variable positively impacts the company's value. Therefore, the hypothesis of this research is fulfilled.

How ESG Disclosure Affects Company Value

According to stakeholder theory, businesses must consider the interests of various parties in their operations. Signaling theory states that the information provided by the company can influence how investors perceive the company, which impacts the company's value. This study shows that ESG disclosure reduces the value of the company. This is due to the high possibility that the cost of implementing ESG will reduce the company's profits in the short term and decrease investor interest. Moreover, ESG has not yet become an important component in many investors' investment decisions because their focus is more on financial gains than sustainability. Furthermore, clearer ESG disclosures can open the public's eyes to risks and previously unknown issues. Investors may lose trust in the company if this information is perceived as a negative signal. In the end, the company's value will decline.

The study by Ariasinta et al. (2024) and Ningwati et al. (2022) found that ESG disclosure significantly negatively impacts company value. However, the findings of this study differ from those of Vivianita et al. (2023), Adhi & Cahyono Wati (2023), and Sabatini & Utama (2023), who state that ESG disclosure increases the value of the company. However, the findings of this study differ from those of Vivianita et al. (2023), Adhi & Cahyono Wati (2023), and Sabatini & Utama (2023), who state that ESG disclosure increases company value.

How Capital Structure Affects Company Value

The second hypothesis is rejected because the analysis results show that the value of companies in the ESG Leaders index for 2021–2023 is not influenced by capital structure, with a significance value of 0.829 greater than 0.05 and a coefficient of -0.010. The research results do not support the signaling theory, which states that a company's choice to manage its capital structure can inform investors about its financial condition and business prospects.However, this research shows that capital structure does not affect the company's value; in other words, investors do not consider the composition of debt and equity as a relevant signal when making investment decisions, especially for companies listed in the ESG Leaders index.

This is due to the characteristics of the companies included in the ESG Leaders index. Both the governance and the financial aspects of the company are stable. Because these companies use mature financial management strategies, small changes in their debt and equity amounts do not

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send significant new signals to investors. Additionally, companies can obtain capital more flexibly through access to sustainable financing such as green bonds and environmentally related debt. Companies can maintain the balance of their capital structure with these alternative funding sources without taking on greater financial risks, ultimately reducing the relevance of capital structure in investment decisions.

This study's results align with those of Rezeki et al. (2023) and Mahanani and Kartika (2022), which state that capital structure does not affect business value. However, this study's findings differ from those of Paramitha & Devi (2024) and Novitasari. R & Krisnando (2021) and Purwanti (2020) state that capital structure significantly affects company value. The second hypothesis is rejected because the analysis results show that the value of companies in the ESG Leaders index for 2021–2023 is not influenced by capital structure, with a significance value of 0.829 greater than 0.05 and a coefficient of -0.010. The research results do not support the signaling theory, which states that a company's choice to manage its capital structure can inform investors about its financial condition and business prospects.However, this research shows that capital structure does not affect the company's value; in other words, investors do not consider the composition of debt and equity as a relevant signal when making investment decisions, especially for companies listed in the ESG Leaders index.

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How Profitability Affects Company Value

The third hypothesis is accepted because the analysis results show that profitability has a significant positive impact on the value of companies in the ESG Leaders index during the period 2021–2023, with a significance value of 0.000 < 0.05 and a coefficient of 0.181. The research results are in line with the signaling theory, which states that business value increases with profitability. Investors consider businesses with high-profit levels to be performing well, mainly because of their ability to provide dividends. In such situations, investors are interested in buying shares of highly profitable companies, which can increase the demand for the shares. This increase in demand raises the stock price, which indicates a high company value.

Previous research conducted by Nabilatuttaqiyya and Anwar (2024), Rezeki et al. (2023), and Purwanti (2020) found that profitability significantly positively affects the company's value. However, this study's findings differ from those of Alida and Sulastiningsih (2024), who found that profitability negatively affects company value, and Mahanani and Kartika (2022), who found that profitability does not affect company value.

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CONCLUSION

The research results in the following conclusion the value of companies listed in the ESG Leaders index was greatly influenced by ESG disclosures from 2021 to 2023. Meanwhile, the ESG Leaders index is not influenced by capital structure. In addition, the value of the company increases significantly due to profitability. Researchers are advised to extend the research period to capture long-term trends and understand the impact of ESG, capital structure, and profitability on firm value. Then, researchers can add additional variables, such as macroeconomic factors, industry conditions, or external factors.

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