



# The impact of Economic, Social, and Good Corporate Governance (ESG) on Growth Opportunities (GO) in ESG companies listed on the Indonesia Stock Exchange

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## ABSTRACT

The impact of Economic, Social, and Governance (ESG) practices on companies listed on the Indonesia Stock Exchange. ESG influences strategic execution and long-term value creation. Growing societal awareness urges businesses to prioritize not only profits but also social and environmental implications. Government mandates, notably Indonesia's Financial Services Authority (OJK), stress ESG disclosure's importance. The research delves into the intricate relationship between ESG and Growth Opportunities (GO), emphasizing alignment with good governance standards, positive effects on reputation, and GO as a metric for future returns. This study underscores stakeholder engagement, community legitimacy through ESG disclosure, and the interplay between ESG and GO in sustainable value creation for investors, policymakers, and businesses amid Indonesian market challenges.

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## INTRODUCTION

Implementation of ESG, encompassing environmental, social, and governance considerations, significantly influences companies' ability to execute business strategies and build long-term value. Heightened societal awareness of social and environmental issues prompts companies to prioritize not only profits but also the social and environmental impact of their operations. Government regulations, such as Indonesia's Financial Services Authority (OJK) mandating ESG disclosure, underscore transparency in economic, financial, social, and environmental reporting (Septiana & Puspawati, 2022). ESG disclosure aligns with good corporate governance (GCG) standards, positively affecting a company's reputation, consumer trust, and overall performance. The study explores the intricate relationship between ESG practices and Growth Opportunities (GO) within Indonesian listed companies (Ningwati et al., 2022).

Effect of GO is a crucial metric for assessing a company's future prospects, signaling its potential to generate returns on investments. The correlation between stock prices and GO serves as an indicator of a company's value and its ability to internally fund future investments and

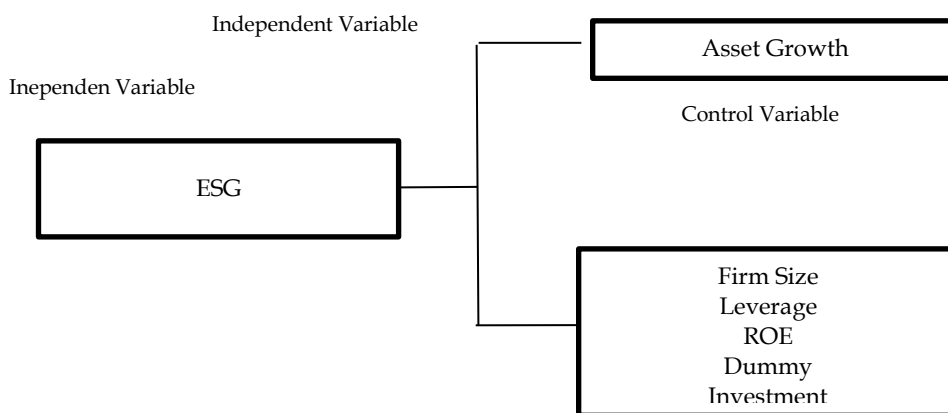
operations (Shiu & Yang, 2017). Companies with high GO face challenges like underinvestment costs, requiring additional external funding for investments. Stock prices' impact on GO values demonstrates that as stock prices rise, a company's value and its likelihood to use internal capital for future investments and operations increase (Buchanan et al., 2018). ESG principles in business and investments integrate policies for sustainable economic development. ESG has become a key consideration for investors in decision-making, aligning with global sustainability initiatives (Farhana & Adelina, 2019). Stakeholder engagement, legal compliance, societal acknowledgment, and environmental commitments play a crucial role in achieving sustainable business practices. Stakeholders, as individuals or groups influencing a company's processes, contribute to its value creation (Masruroh & Makaryanawati, 2020). ESG disclosure becomes a form of social investment, capturing stakeholder attention, stimulating demand, and facilitating company development (Alessandri et al., 2018).

The study emphasizes the interconnectedness of ESG performance and GO value, indicating a company's dedication to sustainability and overall value (Buallay, 2019). Companies adopting ESG principles demonstrate a commitment to sustainable economic development, aligning with global sustainability initiatives (Safriani, 2020). The research underscores the significance of stakeholder involvement and the contribution of GO in sustainable value creation (Wang et al., 2014). ESG disclosure, functioning as a social investment, captures stakeholder attention, stimulates demand, and facilitates company development (Galbreath, 2011). Employing ESG disclosure as a tool for community legitimacy can mitigate risk levels and enhance trust from consumers and investors (LINS et al., 2017).

In conclusion, the study sheds light on the complex relationship between ESG practices, GO, and overall value creation. The findings offer valuable insights for investors, policymakers, and businesses navigating challenges in the Indonesian market, particularly during crisis periods (Vassolo et al., 2018). The integration of ESG principles not only aligns with good governance but also plays a pivotal role in shaping a company's reputation, consumer trust, and future growth opportunities (Del Viva et al., 2017). Growth opportunities in ESG would be accelerate sustainable innovation, fostering the development of environmentally friendly solutions. It is expected to mitigate environmental impact, enhance social efficiency, and provide insights to address inequality issues. The implementation ESG in a company's reputation will attracting socially responsible investors and contributing positively to sustainable community development. Overall, ESG will holds the potential to drive positive change, aligning businesses with ethical, social, and environmental responsibilities for a more sustainable future.

## RESEARCH METHOD

The data utilized in this research is secondary data obtained from the IDX ESG database, S&P Capital IQ, Refinitiv, Yahoo Finance for ESG assessment. Based on the ESG assessment, companies are categorized into five groups: considered to have negligible ESG risk (0-10), low (10-20), moderate (20-30), high (30-40), and severe (>40). The following data criteria were considered companies listed in the IDX ESG database, data extracted encompasses the entire company, companies are required to have complete data for fundamental financial variables such as total assets, total debt, and ESG scores and The selected companies fall within the range of years from 2013 to 2022.



**Figure 1.** Illustration of the Research Model

**Table 1.** Data Variable Type

Indicator	Measurement	Variable Type	Reference
ESG	ESG Score	Independent	(Drempetic et al., 2020)(Kim et al., 2021)
Asset Growth	Total Asset <sub>t</sub> - Total Asset <sub>t-1</sub> / Total Asset <sub>t-1</sub>	Dependent	(Danbolt et al., 2014)(de Andrés et al., 2017)
Dummy	Crisis (2020-2021):0, non crisis (2018-2019):1	Control	(He & Harris, 2020)(Crane & Matten, 2021)
Firm Size (Capitalization)	Log (Capitalization)		(Alessandri et al., 2012)(Setiawan, 2019)
ROA	Net Income/ Average Total Assets		(de Andrés et al., 2017)(Pangestu & Wijayanto, 2020)
Leverage	Total Debt/ Total Assets		(Susanti et al., 2020)(Desyana et al., 2023)
Investment	Capex/ Total Assets		(Dura, 2021)(Y. R. Putri, 2020)

Table 1 shows the variables details such as the supported indicators of the variables and the types of categories for each variable.

The empirical model equation used for panel data regression:

$$AG_{i,t} = \alpha_0 + \beta_1 ESG_{i,t} + \beta_2 ESG_{i,t} \times DUM + \beta_3 SIZE_{i,t} + \beta_4 TQ_{i,t} + \beta_5 ROA_{i,t} + \beta_6 LEV_{i,t} + \beta_7 INVEST_{i,t} + \varepsilon_{i,t}$$

Keterangan:

- AG : Asset Growth
- DUM : Dummy
- ESG : Environment Social Governance
- SIZE : Firm Size
- TQ : Tobin’s Q
- ROA : Return On Assets
- LEV : Leverage
- INVEST : Investments

## RESULTS AND DISCUSSIONS

### Descriptive Statistics

The table below will describes the statistics descriptive of each variable

**Table 2.** Data Variable Type

Variable	Obs	Mean	Std. Dev.	Min	Max
ESG	406	48.15872	20.29584	8.16	88.86
ENV	374	40.53135	24.09752	.11719	91.64408
SOC	406	53.94203	22.83245	4.5506	96.95265
GOV	406	49.93261	22.64857	2.97733	94.01335
AG	406	.03601	.28035	-.9	1.33
FIRMSIZE	406	9.45884	.583	7.05	11.85
ROA	406	.06881	.09595	-.643	.57652
LEV	390	3.29895	3.89641	.0004	31.56231
INVEST	406	7.40318	3.08538	2.76	14.72

The descriptive statistics that presented in Table 2 show about the mean ESG score is 48.15872 with a maximum of 88.86. The averages for each aspect of ESG are as follows: environment are 40.53%, social are 53.94%, and the last governance 53.94%. Other information obtained from the sample data show that the average company performance measured by Asset Growth at 0.03, firm size at 9.45 ROA at 0.06, Leverage at 3.29, and Investment at 7.40.

### Matrix of correlations

**Table 3.** Matrix of correlations

Variables	esg	env	soc	gov	ga	firmsize	roa	lev	invest
ESG	1.00000								
ENV	0.74821	1.00000							
SOC	0.86645	0.67045	1.00000						
GOV	0.73212	0.44710	0.56817	1.00000					
AG	-0.03366	-0.02860	0.02098	-0.03250	1.00000				
FIRMSIZE	0.30611	0.29320	0.29086	0.22384	0.04437	1.00000			
ROA	0.09558	0.22364	0.09629	-0.00462	-0.06989	0.29725	1.00000		
LEV	-0.16470	-0.14166	-0.11910	-0.16527	-0.17336	-0.30484	-0.07916	1.00000	
INVEST	0.06863	0.15272	0.05874	0.07919	-0.08071	-0.21566	0.04027	0.22504	1.00000

Table 3 shows that correlation between variables, indicating that ESG has a negative relationship with Asset Growth, where Asset Growth represents company performance. Meanwhile, firm size and investment have a positive relationship with ESG. Similar to Asset Growth, a negative relationship is observed between ESG, ROA, and Leverage. When examining each aspect of ESG, each aspect shows that are positive and negative relationship with company performance.

### Result of Model Selection Test and Classical Assumption Test

In this research, the unbalanced panel data was used with a fixed-effect model regression. The model was determined with the Chow Test, LM Test, and Hausman Test. Second, the results of the classical assumption tests are as follows: the heteroskedasticity test as showed no heteroskedasticity issues. The autocorrelation test indicated no autocorrelation. Lastly, the cross-section dependence test showed a correlation between residuals.

### Regression Result

**Table 4.** Regression result

	ESG	ENV	SOC	GOV
ESG	.00111 (.0016)			
ENV		.00093 (.00122)		
SOC			.0032 (.00182)	
GOV				.00062 (.00076)
CRISIS	-.00135 (.00076)	-.00163** (.00054)	-.0014* (.00069)	-.0012 (.00069)
FIRMSIZE	.03201 (.04295)	.04522 (.03214)	.02775 (.04925)	.03203 (.04065)
ROA	-.44526** (.18948)	-.35518 (.21437)	-.39474* (.20682)	-.45573** (.19593)
LEV	-.02121*** (.00521)	-.02497*** (.00331)	-.02082*** (.00543)	-.02135*** (.00517)
INVEST	-.08143** (.03423)	-.08226* (.03787)	-.08084** (.03408)	-.08293** (.03397)
_CONS	.40216 (.51515)	.31472 (.42273)	.31942 (.54743)	.43374 (.50333)
Observations	390	358	390	390
Pseudo R <sup>2</sup>	.z	.z	.z	.z

*Standard errors are in parentheses*  
\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

The regression result that presented showed the table 4, that the coefficient for ESG as a whole is 0.00111, for environment is 0.00093, for social is 0.0032, and for governance is 0.00062. Looking for the coefficients are close to zero. ESG it is found no significant relationship between ESG (dependent variable) with the company performance. It mean the research showed a positive and significant relationship for company performance (Flammer, 2015).

### Robustness test

**Table 5.** Robustness Result

	ESG	ENV	SOC	GOV
ESG	.0118 (.02025)			
ENV		.02514 (.02798)		
SOC			-.01576 (.00945)	
GOV				.00728 (.01218)
CRISIS	-.01146** (.00479)	-.01636 (.00956)	-.00608** (.00211)	-.00863** (.00352)
FIRMSIZE	13.40803** (5.71292)	14.09681* (6.24899)	13.3853** (5.69156)	13.40779** (5.72172)
ROA	-1.56433 (5.53324)	-2.10545 (5.33495)	-2.16839 (5.54891)	-1.54722 (5.56985)
LEV	.15988** (.05311)	.16828** (.06122)	.15653** (.0532)	.1563** (.05257)
INVEST	.04801 (.18619)	.10396 (.23908)	.06889 (.20432)	.04821 (.19204)
_CONS	-125.95286** (54.93676)	-133.33154* (60.71751)	-124.53372** (54.17185)	-125.79734** (54.89589)
Observations	390	358	390	390

Pseudo R <sup>2</sup>	.z	.z	.z	.z
<i>Standard errors are in parentheses</i>				
*** $p < .01$ , ** $p < .05$ , * $p < .1$				

The robustness result that presented showed the table 5 was test using ROA with the result -1.56433. The robustness test showed that ESG does not have any significant on Growth Opportunity, it shown 0.0118. Even though when crisis showed, ESG would show negative relationship make a significant influence on company. Environment has 0.02514 and Governance has 0.00728 in these two have the positive but insignificant influence. Meanwhile, Social has -0.1576 it means a negative influence.

The table indicates Firm size is 13.4080, Leverage 0.15988, Investment 0.04801 have the positive influence, while ROA has a positive but insignificant influence. However, Indonesia rarely using the benefit of ESG. This result means, the robust law basically can indirect encouragement for public dan companies to recognize which one more importance for ESG and the greens project.

## CONCLUSION

This study demonstrated a negative relationship between ESG and GO. The findings emphasize the interconnectedness of ESG performance and GO value, indicating a company's commitment to sustainability and overall value. ESG would involve expanding the sample to include small and medium-sized enterprises for a more comprehensive representation. Deepening the study on government regulations influence on ESG practices in Indonesian companies and considering cultural aspects in ESG strategy implementation is crucial. Also, employing a mixed-methods approach, combining quantitative and qualitative methods, can enrich the understanding of both inhibiting and supporting factors for sustainable growth at the corporate level.

ESG can increase a nature of regulatory frameworks, law enforcement, the development of green projects, and the appeal to investors in fostering awareness and prioritization of ESG practices especially in Indonesia. Also as we know that ESG in emerging market countries is not widely recognized by company in Indonesia, after this research can show that for investors that ESG practice need to be considered before making investment decisions.

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