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The Role of Environmental, Sosial, and Government (ESG) Reporting and Cost Efficiency in Increasing Firm Value

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Abstract. The issue of Sustainable Development Goals (SDGs) is becoming an important concern for companies because they are closely related to firm values. One of the frequently used parameters is the Environmental, Social and Governance (ESG) Reporting. ESG Reporting is one of the efforts to gain competitive advantage, operational efficiency, and the formation of firm value. The purpose of this study is to analyze the effect of ESG Reporting on firm value which is moderated by the Cost Efficiency variable. The objects used in this study are companies in Indonesia that are listed in Thomson Reuters Assets for the 2017-2021 period. Based on this population, 60 companies were selected as research samples. The number of observations used was 219 observations. This study uses a multiple linear analysis model of panel data with Eviews 12 software. The results of this study indicate that there is a significant positive effect between the projected ESG Reporting variable with Assets Thomson Reuters' Environmental, Social, and Governance score data and projected firm value with Tobin's Q. Moreover, the Cost Efficiency variable can only moderate the relationship between Social Performance Reporting variables and firm value

Keywords: SDGs, ESG Reporting, Cost Efficiency, Firm Value

1. Introduction

Firm value is one of the important aspects that can influence the perceptions of stakeholders. A good firm value can create a positive signal for investors and creditors. According to investors' point of view, firm value can describe a company's current and future prospects. In line with the creditor's perspective, the company's ability to pay debts can also be described by a good firm value (Akhtar et al., 2021). Selain investor dan kreditur, masyarakat dan lingkungan sekitar juga perlu diperhatikan. A mutually beneficial reciprocity between the company and the surrounding community and environment greatly determines the sustainability of a company (Safriani & Utomo, 2020). The interrelatedness of these relationships causes companies to pay more attention to social responsibility towards the wider community. In accordance with the stakeholder theoretical framework (Freeman, 1984), the company is accountable to its stakeholders.

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One of the factors that influence firm value is the issue of sustainable development or Sustainable Development Goals (SDGs). The issue regarding SGDs is becoming an important concern for the company because it is considered to be closely related to firm value (Xu et al., 2021). Recently, companies are considered to exploit the environment and natural resources to achieve massive economic growth and corporate profits (Nadhifah & Wijayanti, 2021). This of course can have an impact on bad firm value. The solution is that information about SGDs must be presented so that stakeholders can understand the non-financial condition of a company (Priandhana, 2022).

In achieving SGDs, one of the parameters often used is the Environmental, Social and Governance (ESG) standard.(Mgbame et al., 2020). Xu et al., (2021) mentioned that the ESG parameter has three basic main reasons. First, the ESG score can effectively reflect the company's efforts to achieve the ESG criteria. Second, the ESG rating is a more objective approach to measuring a company's ongoing performance. Third, recent developments in ESG research have given rise to renewed interest in the management of companies in emerging markets contributing to achieving ESG criteria..

Previous research conducted by Buallay (2019), Chouaibi et al. (2022), Li et al. (2018), dan Qoyum et al. (2022) concluded that ESG activities have the potential to increase firm value. This evidence builds a motivation for the company that the fulfillment of social and environmental responsibilities requires special attention. For this reason, it is necessary to disclose corporate responsibility to all stakeholders who are not only focused on inside but also outside the company that is reported as ESG reporting (Almedya & Darmansyah, 2019). ESG reporting reports on the company's ability to manage the use of human resources, natural resources, corporate governance, and investment in community relations. ESG reporting is grouped into three reporting criteria, including the environmental dimension, social dimension, and governance dimension.

The environmental dimension is a criterion regarding stakeholder assessment of company performance that emphasizes environmentally friendly principles. Azmi et al. (2021) states that environmentally friendly activities have the greatest effect on bank value (bank value). Examples of other implications from the environmental dimension include the energy used by companies, the process of handling waste and pollution, and the conservation of natural resources. Companies that pay attention to the environment are considered to be able to obtain good ratings from stakeholders. This statement is consistent with Li et al. (2018) and Chouaibi et al. (2022) which concludes that there is a significant influence between ESG reporting on the environmental dimension and firm value.

Another dimension that drives firm value is the social dimension. The social dimension includes the relationship between parties within the company and parties outside the company, such as the community, organizations, the media, and other parties who have direct or indirect relationships. Li et al. (2018) documented that the ESG disclosure score on the social dimension is positively related to firm value. In addition, the factors in the social dimension criteria can have an impact on the assessment of a company and the company's readiness to place a position on social issues affecting the image of a company.

Slightly different from the previous two dimensions, the governance dimension is more focused on internally sustainable corporate processes and management. Consistent with stakeholder theory, Azmi et al. (2021) stated that several banking industry governance activities play a role in adding value to a bank at a certain threshold. Criteria that need to be considered in the governance dimension include company policies, company standard operating procedures, company culture, information disclosure, and the company's compliance audit process. Li et al. (2018) found that firm value has increased through transparency and accountability, resulting in increased stakeholder trust.

More and more companies are realizing that ESG is an effort to gain competitive advantage, operational efficiency and reputation building (Buallay, 2019). As a result, more and more companies are competing to make efforts to achieve the criteria for companies implementing ESG reporting. Caracuel & Guerrero (2018) states that companies need to look for new opportunities to strengthen their market position against competitors in a competitive business environment. Azmi et al. (2021) states that companies that can allocate resources more efficiently in their activities are likely to have more value than competitors. Therefore, cost efficiency is considered as an opportunity to strengthen position in the eyes of stakeholders.

Cost Efficiency is a factor that is considered to influence the relationship between ESG reporting and firm value. ESG reporting activities are considered to depend on the cost efficiency carried out by the company. Aupperle et al. (1985) states that companies that carry out social activities incur higher direct costs and generate lower profits than companies that do not carry out social activities. This can be an argument for not carrying out ESG activities due to the existing cost efficiency policies in the company. On the other hand, Benlemlih & Bitar (2018) argues that in fact companies that do ESG reporting improve company reputation, gain employee loyalty, and benefit from customer support. This fact is likely to encourage cost efficiency which is then channeled into ESG activities which have recently been predicted to increase firm value (Azmi et al., 2021; Xie et al., 2019).

Research on ESG reporting is continuously present with various sample selections and research designs (Bansal et al., 2021; Buallay, 2019; Caracuel & Guerrero, 2018; Chouaibi et al., 2022; Fatemi et al., 2018; Li et al., 2018; Mgbame et al., 2020; Priandhana, 2022; Qoyum et al., 2022; Xu et al., 2021). This is caused by social and environmental issues that are increasingly complex and require a solution to support economic growth and sustainable development. In this case the company is required to maintain a balance between improving financial performance and maintaining environmental benefits (Xu et al., 2021). Therefore, this research was conducted to close this gap.

2. Literature Review

2.1 Stakeholder Theory

Stakeholder theory suggests that a company is an entity that does not only operate for its own interests but is obliged to provide benefits to its stakeholders (stakeholders). This theory appears in the work developed by Freeman (1984) which explains the view that companies have an ethical obligation to maximize value for stakeholders. In line with more recent research, Bani-Khalid & Kouhy (2017) states that the company is given the responsibility in providing benefits to stakeholders.

Reporting activities of financial and non-financial information is a way for companies to get support from stakeholders. In this case, the management of a company has the responsibility to report all business activities carried out. This effort was made by the company to meet the needs of stakeholders by publishing a sustainability report (Hörisch et al., 2020). Sustainability report is a sustainability report that provides transparent information about company activities related to economic, environmental and social aspects. Sustainability reporting is important to maintain relationships and improve the company's reputation from the side of stakeholders. Li et al. (2018) states that transparency and accountability in carrying out business activities give stakeholders confidence in the company so that it is expected to have a positive effect on firm value.

2.2 Firm Value

Firm value is a value or price of a company that describes the welfare of a company. Efforts to optimize long-term firm value are carried out by managers by making decisions that consider all stakeholders. Manager performance appraisal is seen based on success in achieving company goals (Dewi & Rahmianingsih, 2020).

Firm value can also be interpreted as a condition achieved by the company which can describe the trust outside the company on the company's performance in carrying out operational activities. This then makes the value of the company can be linked to the success rate of management in managing company resources. In addition, the value of the company can also be related to investors' assessment of the company's performance or achievements projected at the stock market price. Susilawati (2020) argues that the reporting of accounting and capital markets of a company can be used as a basis for measuring economic performance

2.3 ESG Reporting and Firm Value

Environmental, Social, and Governance (ESG) reporting is information reported by the company regarding the company's commitment and effectiveness in setting goals, managing business activities, and measuring company performance on an ongoing basis (Reuters, 2018). ESG reporting is grouped into three reporting criteria, including the environmental dimension, social dimension, and governance dimension.

Environmental Performance Reporting and Firm Value

The environment is something that is outside the organization and has the potential to affect organizational performance (Robbins et al., 2010). The environment is considered to have a relationship with company performance in the form of environmental problems (Elsayed & Paton, 2005). Climate change and global warming are environmental problems that are attracting the world's most attention (Alareeni & Hamdan, 2020). In accordance with the stakeholder theory which states that companies are responsible to their stakeholders, environmental problems can certainly affect the company's future performance. Public awareness of this global problem requires companies to establish environmental regulations and disclose information about the company's commitment to environmental issues (Buallay, 2019). The company's commitment to being responsible for environmental problems is considered to influence the assessment of the company's stakeholders.

Previous research has discussed the impact of environmental problems from various aspects. Fatemi et al. (2018) analyze the impact of environmental issues such as hazardous waste, release of toxins, and recycling. This research shows that good environmental performance is related to good economic performance as well, Li et al. (2018) dan Adzin (2019) concluded that companies with shareholder value-oriented strategies, the relationship between environmental and economic performance has a positive relationship with firm value. Therefore, the hypothesis is formulated H1. Environmental Performance Reporting has a positive effect on firm value

Social Performance Reporting and Firm Value

Social performance is a performance that is reported in the form of non-financial reporting that can link the results of operations, standards, or activities in the field of corporate social responsibility (Dyllick & Hockerts, 2002). This leads to a construction that emphasizes corporate responsibility to stakeholders. In accordance with stakeholder theory, Alareeni & Hamdan (2020) found that companies with high levels of social responsibility have value in holding the trust and expectations of stakeholders. In the dimension of social performance, Carroll & Brown (2018) reports several indicators in adapting social responsibility practices, including product responsibility, quality of work, diversity and opportunity, community, human rights, health and safety as well as training and development.

Previous research has produced several related arguments. Taneja et al. (2011) found that social performance can be used as a corporate strategy to improve corporate reputation, customer satisfaction, and corporate performance. Besides that, Donaldson & Preston (1995) found that companies can increase their value by practicing good social performance.

Adopting socially responsible activities is one of the main techniques by which companies can increase and maintain the trust and confidence of stakeholders (Barnett & Salomon, 2012). Therefore, the hypothesis is formulated H2. Social Performance Reporting has a positive effect on firm value

Governance Performance Reporting and Firm Value

Corporate governance is a system that regulates and controls the company (Giovani, 2019). The main goal of good corporate governance is to create a system within the company that focuses on checks and balances as an effort to prevent misuse of corporate resources. Governance performance shows the coordination of company activities in order to improve business and corporate responsibility to increase shareholder value in the long term by considering other stakeholders (Tarmuji et al., 2016). In accordance with stakeholder theory, companies that adapt governance performance mechanisms provide more relevant information to stakeholders to reduce information asymmetry and help companies increase operating profits (Merza Radhi & Sarea, 2019). Therefore, good corporate governance is a significant factor in increasing stakeholder assessment of the company.

Ahmad et al. (2021) found that corporate governance practices have a significant effect on the company's economic growth. This is in line with research Alareeni & Hamdan (2020), that corporate governance disclosures were found to positively affect operational and market performance of firms (ROA and Tobin's Q). This means that disclosure of governance improves asset efficiency (ROA) and the market value of company assets (Tobin's Q). A higher level of governance is an important factor in improving company performance in the best interest of shareholders and other interested parties and to enable the company to continue as a going concern. Therefore, the hypothesis is formulated H3. Governance Performance Reporting has a positive effect on firm value

2.4 Cost Efficiency, ESG Reporting, and Firm Value

Cost efficiency is a form of sacrifice or expenditure that is allocated in an appropriate manner so as not to waste resources to achieve certain benefits or goals. Caracuel & Guerrero (2018) states that companies need to look for new opportunities to strengthen their market position against competitors in a competitive business environment. Azmi et al. (2021) stated that companies that can allocate resources more efficiently in their activities are likely to have more value than their competitors. In accordance with stakeholder theory, companies do not only operate for their own interests, but must pay attention to the views of stakeholders. Cost efficiency is considered as an opportunity to strengthen position in the eyes of stakeholders.

Cost Efficiency can be a factor affecting the relationship between ESG reporting and firm value. ESG activities are considered to depend on the cost efficiency carried out by the company. Aupperle et al. (1985) noted that companies that carry out social activities incur higher direct costs and generate lower profits than companies that are not socially conscious. This can be an argument for not carrying out ESG activities due to the existing cost efficiency policies in the company. On the other hand, Benlemlih & Bitar (2018) argues that in fact companies that do ESG reporting improve company reputation, gain employee loyalty, and benefit from customer support. This fact may actually encourage cost efficiency which is then channeled into ESG activities which have recently been predicted to increase firm value (Azmi et al., 2021; Xie et al., 2019). These findings indicate that cost efficiency is one of the factors that can strengthen or weaken the relationship between ESG reporting and firm value. Therefore, the hypothesis is formulated as follows.

H4a. Cost Efficiency moderates the relationship between Environmental Performance Reporting and Firm value

H4b. Cost Efficiency moderates the relationship between Social Performance Reporting and Firm value

H4c. Cost Efficiency moderates the relationship between Governance Performance Reporting and Firm value

3. Research Method

3.1 Design and Sample

This research uses descriptive research with a quantitative approach. The objects studied are companies in Indonesia that report sustainability reports and are registered with Thomson Reuters Assets. Data collection in this study used field research and library research techniques where the data used were secondary data. To investigate the effect of ESG reporting on firm value, researchers use sustainability report disclosure data from Assets Thomson Reuters for each ESG reporting variable (environmental dimension, social dimension, governance dimension). Sampling was carried out using the purposive sampling method by determining the criteria for sampling (Sugiyono, 2008). The standards that have been determined are companies that have obtained an ESG score (ESG score) and disclosure of sustainability reports from Thomson Reuters Assets in the 2017-2021 period, companies that have obtained an ESG score (ESG score) and disclosure of sustainability reports from Thomson Reuters Assets for at least 1 year.

3.2 Variable Measurement

Firm value is measured using Tobin's Q. This is based on the existence of several advantages of Tobin's Q measurement. Smithers & Wright (2002) mentions some of the advantages of Tobin's Q including being able to describe the company's assets as a whole, describing market sentiment, describing the company's intellectual capital, and being able to solve problems in estimating the level of profit or marginal costs. The formula used to calculate Tobin's Q is as follows.

$$Tobin's\ Q = \frac{MVE+DEBT}{TA} \quad (1)$$

Information:

Tobin's Q : Financial Performance
MVE : Market Value Equity
DEBT : Total Liabilities
TA : Total Assets

ESG reporting is measured using sustainability report disclosure data from Assets Thomson Reuters for each ESG reporting variable. Each dimension of ESG reporting has a disclosure indicator, then the environmental score, social score, and governance score are determined which are available at Thomson Reuters Assets as an assessment of corporate governance disclosures. Furthermore, measurement of cost efficiency is carried out by comparing the amount of operating expenses (cost) to operating income (total income) (Fatmasari & Indriyani, 2021). Efficiency ratios are used to determine the ability to manage operational costs by management in the form of ratios that indicate the level of efficiency in operational activities. Here is the efficiency ratio formula.

$$Cost\ Efficiency = \frac{Cost}{Total\ Income} \quad (2)$$

3.3 Data Testing

This study uses panel data, which is a combination of cross section and time series. The period used in data collection was 2017-2021 and the researchers used Eviews 12 software to process the data. The analysis used is also divided into two, the first is multiple regression analysis and then another moderation regression analysis or commonly called Moderated Regression Analysis (MRA) is performed. Testing begins with testing the suitability of the model by carrying out the Chow test and the Hausman test. After obtaining the most suitable regression model, the test will be continued by testing the hypothesis with Panel Data Regression Analysis (equation 1) and Moderation Regression Analysis (equation 2). The following is a research model using the functions provided in this study.

$$FV = \alpha + ß1EPR + ß2SPR + ß3GPR + e \quad (3)$$

$$FV = \alpha + ß1EPR + ß2SPR + ß3GPR + ß4CE + ß1EPR*ß4CE + ß2SPR*ß4CE + ß3GPR*ß4CE + e \quad (4)$$

Note:

FV : Firm Value
EPR : Environmental Performance Reporting
SPR : Social Performance Reporting
GPR : Governance Performance Reporting
CE : Cost Efficiency
α : Constant
ß : Regression coefficient
e : Error

4. Results and Discussion

The objects studied are companies in Indonesia that report sustainability reports and are registered with Thomson Reuters Assets. The object of this research is 60 companies with the year of observation being 2017 – 2021 with 219 observations of research data. In this study, unbalanced panel data was used, which is a situation where the cross-section unit has a different number of time series observations.

4.1 Model Fit Test

The suitability test of the panel data regression data model was carried out by the Chow test and the Hausman test. The Chow test aims to test the suitability of the panel data regression model. Chow test results for data before the pandemic and after the pandemic are presented in Table 1.

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.063973	(59,152)	0.0000
Cross-section Chi-square	288.993125	59	0.0000

Based on the results of the Chow test, it can be seen that the probability value of Cross-section F is 0.000. These results show a value that is less than 0.05. Thus it can be stated that the panel data regression model to be selected is the Fixed Effect Model. Test the suitability of the panel data regression data model using the Hausman test. The Hausman test was conducted to compare the Fixed Effect Model and the Random Effect Model with the aim of determining which model should be used. The results of the Hausman test data before the pandemic and after the pandemic are presented in Table 2.

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.321709	7	0.0154

Based on the results of the Hausman test, it shows that the random cross-section value is 0.0154 and the results of Prob. Cross-section random is smaller than 0.05, so it can be stated that the panel data regression model to be selected is the Fixed Effect Model.

4.2 Hypothesis test

From the results of previous tests, it was found that the most suitable panel data regression model used for this test was the Fixed Effect Model. The following are the results of panel data regression analysis testing.

Table 3. Regression Test Results with Moderating Variables

Variables	Coefficient	Probability
Environmental Performance Reporting	0.025	0.023
Social Performance Reporting	0.026	0.010
Governance Performance Reporting	0.044	0.000
Cost Efficiency	-0.036	0.225
Environmental Performance Reporting* Cost Efficiency	-0.014	0.115
Social Performance Reporting*Cost Efficiency	-0.024	0.008
Governance Performance Reporting*Cost Efficiency	-0.010	0.390

4.3 Coefficient of determination (R^2)

The results of the test for the coefficient of determination (R^2) are presented in the following table.

Table 4. Determination Coefficient Results

R-squared	Adjusted R-Squared
0.744	0.633

Based on the Determination Coefficient Test, it can be seen that the Adjusted R-Squared value is 0.633. This means that 63.3% of the independent variables namely environmental, social, and governance reporting performance are able to explain and or describe the value of the company. The remaining 36.7% is explained by other variables not included in this research model.

4.4 Discussion

The results of this study indicate that environmental performance reporting has a significant positive effect on firm value. According to the stakeholder theory framework which states that companies are responsible to stakeholders (Freeman, 1984). Global competition and intense social pressure require companies to increase environmental responsibility to prevent environmental damage. Gladia (2013) suggests that a company's concern for the environment is a form of responsibility to stakeholders that is manifested in order to obtain an image of environmental performance. According to Suratno et al. (2006), environmental performance is a company's effort in creating a good environment by minimizing the impact that occurs due to the use of the area. The results of this study are in line with research Fatemi et al. (2018), Li et al. (2018), and Adzin (2019) who concluded that the company's environmental performance has a positive relationship with firm value. This is appropriate Al-Tuwaijri et al. (2004) which analyzes the impact of environmental issues such as hazardous waste, toxic releases, and recycling. This study obtained results indicating that good environmental performance is directly proportional to good economic performance.

This study also found that social performance reporting has a significant positive effect on firm value. In accordance with stakeholder theory, Alareeni & Hamdan (2020) found that companies with high levels of social responsibility have value in holding the trust and expectations of stakeholders. Social reporting is used to provide information about social policy issues and is considered as part of the dialogue between companies and stakeholders. This report is reported in the form of a sustainability report which can link the results of operations, standards, or activities in the field of corporate social responsibility (Dyllick & Hockerts, 2002). Social reporting allows an organization to assess its performance against the expectations and requirements set by society. This research is in line with Taneja et al. (2011) and Donaldson & Preston (1995), meaning that adopting socially responsible activities is one of the main techniques by which companies can increase and maintain the trust and confidence of stakeholders. This creates a distinct value for the company.

Other results also show that governance performance reporting has a significant positive effect on firm value. In accordance with stakeholder theory, governance performance shows the coordination of company activities in order to improve business and corporate responsibility to recognize long-term shareholder value and consider other stakeholders (Tarmuji et al., 2016). Companies that adapt governance performance mechanisms provide more relevant information to stakeholders to reduce information asymmetry and help companies increase operating profits (Merza Radhi & Sarea, 2019). The results of this study are in line with or in accordance with Ahmad et al. (2021) who found that corporate governance practices have a significant effect on the company's economic growth. Alareeni & Hamdan (2020) also mentioned that disclosure of corporate governance was found to positively affect operational and market performance of companies (ROA and Tobin's Q). This shows that governance disclosure increases the market value of company assets (Tobin's Q).

This study also finds that cost efficiency is able to moderate the relationship between social performance reporting and firm value. Aupperle et al. (1985) concluded that companies that carry out social activities incur higher direct costs and generate lower profits. This shows that when companies carry out cost efficiency it will have an impact on the implementation of lower corporate social activities so that they can sacrifice responsibility to stakeholders. According to stakeholder theory, Alareeni & Hamdan (2020) concluded that companies that have a high level of social responsibility affect the value of the company by holding the trust and expectations of stakeholders. This causes when corporate social responsibility decreases due to cost savings causing the level of trust and expectations of stakeholders towards the company. This phenomenon indicates that cost efficiency can weaken the relationship between social performance reporting and firm value.

Finally, cost efficiency is not able to influence the relationship between environmental performance and governance performance. According to Sedarmayanti (2017), one of the principles of Cost Efficiency is elimination. The principle of elimination in this condition means that when a company performs Cost Efficiency, the company tends to eliminate activities that are considered to be a burden on the company's costs. Fulfillment of activities in achieving environmental and governance tends to require quite a large amount of money. This causes when companies carry out Cost Efficiency then environmental and Governance Performance Reporting cannot be carried out.

5. Conclusion

This study examines the role of ESG reporting and cost efficiency on firm value. It can be seen that public awareness of global environmental issues requires companies to establish environmental regulations and disclose information about the company's commitment to environmental issues. This causes environmental performance reporting to affect stakeholders' assessment of firm value. In addition, socially responsible activities are one of the main techniques by which companies can increase the trust and confidence of stakeholders. This shows that social performance reporting can also affect stakeholders' assessment of firm value. Furthermore, internally sustainable company management processes include: existing company policies within the company, operational standards determined by the company, culture within a company, adequate information reporting, as well as audit and compliance processes that increase stakeholder trust through transparency and accountability . Overall, this study illustrates that without cost efficiency as a moderating variable, the ESG reporting variable is able to influence firm value well. This can happen because according to Assets Thomson Reuters, ESG has different assessment indicators from cost efficiency.

This research provides recommendations for companies to start paying attention to several dimensions in ESG Reporting, including the management of environmental problems as an effort to create a good environment with risk mitigation to minimize the negative impacts that occur as a result of using the environment. Management of social responsibility as a communication effort built by the company with stakeholders to determine social policies to stakeholders and the wider community. Management of corporate governance as an effort to prevent misuse of company resources by building a system within the company that focuses on control and balance (check and balance). It is hoped that this research can also be used as a reference and reference regarding Sustainability Reporting research that is growing, especially in the Environmental, Social, Governance (ESG) dimensions. The weakness in this study is that there is still a small number of companies in Indonesia that report ESG activities and are registered in the Thomson Reuters Assets database so that they are not able to describe the overall reporting of ESG activities in Indonesia. Future research is expected to use more samples with a wider area. In addition, future research is expected to explore the role of moderating variables in the relationship between ESG Reporting and firm value.

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