The Effect of Environmental, Social, and Governance (ESG) Disclosure and Competitive Advantage on Companies Performance as An Implementation of Sustainable Economic Growth in Indonesia for Period of 2015-2019

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Abstract. Environmental issues have gained quite attention in recent years. Many scientists believe that sustainability is one of many options that can reduce the environmental problems. Drawn by the importance of sustainability aspects while doing business, this study aims to investigate the effect of environmental, social, and governance (ESG) disclosure on company performance, moderated by competitive advantage. This study used a sample of 52 publicly listed companies on the Indonesia Stock Exchange that consistently disclose their ESG scores between 2015-2019. This research used panel data which is processed using random effect model data. The results of this study indicate that ESG disclosure has a negative impact on company performance. When the moderating variable, competitive advantage, are introduced in the model, ESG disclosure has a positive impact on company performance, but it is insignificant. Our results showed the implementation of ESG in Indonesia is still very low and shed light the lack of governance by the government and the financial authorities.

1. Introduction
Environmental issues become topic that has begun widely discussed by the public lately. According to the Global Sustainable Investment Alliance (GSIA), global investors generally use several strategies to choose the companies they want to invest in. Based on the GSIA, the environmental, social, and governance (ESG) score is one of the two most important points in determining an investment strategy. The lack of ESG disclosure is a signal that the company invest in high risk sectors, especially in damaging the environment or discriminating against workers. If companies integrate ESG in making investment decisions, it will provide investors with a broad picture of the company [1]. ESG is defined as the obligation of the company to improve social welfare for stakeholders in long-term period and sustainably [2].

Nelson (2017) found that integrating ESG as a factor in investment decisions making for companies that have a competitive advantage will result in lower investment risk, better governance, and able to increase the company's involvement in good social and environmental practices. Porter et al. (2019) argues that ESG disclosure is only used to increase the acceptance of a company's reputation...
enhancement in front of investors. Furthermore, some companies use ESG disclosures as an event to loosen regulations from regulators regarding their investment portfolios. Based on research conducted by Plastun et al. (2020), it was found that European countries dominate as the countries with the highest ESG disclosures worldwide. The driving factor for the high level disclosure that occurs in Europe is caused by the regulations set by the government and the stock exchanges of each country.

The consistency of European countries in implementing ESG certainly has a very positive impact. Bloomberg noted that the number of green bonds issued in Europe was worth $160 million in 2020, much higher than America's $60.8 million and Asia's $32.7 million [6]. Bank of America even predicts that Europe will be able to raise funds of $1.2 trillion in 2030 because of the ESG implementation.

In Asia itself, Japan and Singapore are among the 20 countries with the highest ESG score worldwide. This is the result of the strict regulations carried out by their government. Based on sustainability report in ASEAN countries published by ASEAN CSR Network in 2018, Indonesia is at the bottom list compared to Singapore, Malaysia, Philippines, and Thailand [7].

Based on the above and previous explanations, discussions about the impact of ESG implementation and company performance in Indonesia are still rarely carried out, coupled with the company's competitive advantage variable as a moderating variable. Therefore, it is decided to conduct a discussion by analyzing company performance affected by ESG disclosure and moderated by competitive advantage. The results of this research are expected to be able to provide benefits for regulators, investors, and further research.

2. Method

The data in this research is obtained from Bloomberg. The sample of this research are 52 public listed companies in Indonesia Stock Exchange (IDX) during 2015-2019. This study uses quantitative research utilizing secondary data. Random effect model (REM) regression is an analytical method to be used. This study replicates the research model made by Mohammad & Wasiuzzaman (2021) except for the independent commissioner variable.

The following are the equations used in the study:

**Model I**
\[
\text{Tobin } -q = \beta_0 + \beta_1 \text{ESGSCORE}_{it} + \beta_2 \text{COMADV}_{it} + \beta_3 \text{INDEP} + \beta_4 \text{GROWTH} + \beta_5 \text{PROFITABILITY} + \beta_6 \text{LIQUIDITY} + \beta_7 \text{CASHFLOW} + \beta_8 \text{DEBT} + \beta_9 \text{TOTALASSETS} + \varepsilon_{it}
\]
(No interaction)
(1)

**Model II**
\[
\text{Tobin } -q = \beta_0 + \beta_1 \text{ESGIND}_{it} + \beta_2 \text{COMADVit} + \beta_3 \text{INDEP} + \beta_4 \text{GROWTH} + \beta_5 \text{PROFITABILITY} + \beta_6 \text{LIQUIDITY} + \beta_7 \text{CASHFLOW} + \beta_8 \text{DEBT} + \beta_9 \text{TOTALASSETS} + \varepsilon_{it}
\]
(With interaction)
(2)

**Model III**
\[
\text{Tobin } -q = \beta_0 + \beta_1 \text{ESGSCORE}_{it} + \beta_2 \text{COMADV}_{it} + \beta_3 \text{ESGSCORE} \times \text{COMADVANTAGE} + \beta_4 \text{INDEP} + \beta_5 \text{GROWTH} + \beta_6 \text{PROFITABILITY} + \beta_7 \text{LIQUIDITY} + \beta_8 \text{CASHFLOW} + \beta_9 \text{DEBT} + \beta_{10} \text{TOTALASSETS} + \varepsilon_{it}
\]
(No interaction)
(3)

**Model IV**
\[
\text{Tobin } -q = \beta_0 + \beta_1 \text{ESGIND}_{it} + \beta_2 \text{COMADV}_{it} + \beta_3 \text{ESGIND} \times \text{COMADVANTAGE} + \beta_4 \text{INDEP} + \beta_5 \text{GROWTH} + \beta_6 \text{PROFITABILITY} + \beta_7 \text{LIQUIDITY} + \beta_8 \text{CASHFLOW} + \beta_9 \text{DEBT} + \beta_{10} \text{TOTALASSETS} + \varepsilon_{it}
\]
(With interaction)
(4)
ESGSCORE = ESG disclosure score
ESGIND = Environmental score
COMADV = Competitive advantage
INDEP = Independent commissioner proportion
GROWTH = Company growth
PROFITABILITY = Profitability
LIQUIDITY = Liquidity
CASHFLOW = Cashflow
DEBT = Long-term interest-bearing debt
TOTAL ASSETS = Total asset

3. Results and discussion

Table 1 is the regression result of ESGSCORE and ESGIND (with and without moderating variables) and their impact on company performance. For each regression described through the research model, models I and III use ESGSCORE variable, and models II and IV use ESGIND variable. When the moderating variable is used in the research model (model III and IV), this variable strengthens the relationship between environmental score disclosure (ESGIND) on company performance if it is significant.

| Variabel           | Model I | Model II | Model III | Model IV |
|--------------------|---------|----------|-----------|----------|
|                    | Coeff   | P-value  | Coeff     | P-value  | Coeff   | P-value  |
| ESGSCORE           | -0.159  | 0.185    | -         | -        | 0.090*  | 0.024    |
|                    | 0.159   | 0.185    | -         | -        | 0.159   | 0.185    |
| ESGIND             | -0.229  | 0.011b   | 0.008     | 0.286    |
|                    | 0.229   | 0.011b   | 0.008     | 0.286    |
| ESGSCORE*COMPAD    | -0.008  | 0.262    |
|                    | 0.008   | 0.262    |
| ESGIND*COMPADV     | -0.079  | 0.262    |
|                    | 0.079   | 0.262    |
| COMADVAN           | 0.018   | 0.784    | 0.019     | 0.771    | -0.333  | -0.262   |
|                    | 0.019   | 0.771    | 0.019     | 0.771    |
|                    | 0.262   | 0.141    |
| INDEP (%)           | 0.055   | 0.897    | 0.917     | 0.845    |
|                    | 0.055   | 0.897    | 0.917     | 0.845    |
|                    | 0.840   | 0.237    |
| GROWTH             | -0.144  | 0.712    | -0.142    | 0.163    |
|                    | -0.144  | 0.712    | -0.142    | 0.163    |
|                    | 0.180   | 0.141    |
| PROFITABILITY      | 0.065   | 0.618    | 0.728     | 0.756    |
|                    | 0.065   | 0.618    | 0.728     | 0.756    |
|                    | 0.926   | 0.128    |
| LIQUIDITY          | 0.037   | 0.345    | 0.361     | 0.326    |
|                    | 0.037   | 0.345    | 0.361     | 0.326    |
|                    | 0.328   | 0.385    |
| CASHFLOW           | 0.664   | 0.501    | 0.072     | 0.456    |
|                    | 0.664   | 0.501    | 0.072     | 0.456    |
|                    | 0.471   | 0.385    |
| DEBT               | 0.484   | 0.000c   | 0.488     | 0.461    |
|                    | 0.484   | 0.000c   | 0.488     | 0.461    |
|                    | 0.456   | 0.385    |
It can be seen in Table 1 that ESG disclosure using both the ESG score (ESGSCORE) and the environmental score (ESGSIND) has a negative relationship with company performance. The results in this study are different from the findings of the reference journal [1] which states there is a positive relation between ESG disclosure and company performance. These results follow the previous research by Buallay et al. (2020) and Radhouane et al. (2020)

Radhouane et al. (2020) found that shareholders have concerned about the high costs incurred by companies when making ESG disclosures. Companies that have the potential to damage the environment will be pressured by stakeholders to improve their operations to be more environmentally friendly. However, this will have an impact on the costs incurred by the company. In addition, companies that produce high pollution in carrying out their operations must make more efforts to reduce the impact on the environment.

Shareholders perceive ESG disclosure as an additional cost to the environmental externalities imposed on them. The shareholder theory states that the use of company funds in addition to maximizing profit for the company is considered an agency cost because the funds issued can eliminate opportunities for shareholders [10]. They assume that all contributions enjoyed by the community are included in the taxes paid by the company [11].

The new financial authority (OJK) regulations require ESG disclosure to be fully implemented in 2020. Currently, the applicable regulation is UU no. 40 tahun 2007 about limited liability companies, which mandate companies to carry out social and environmental responsibility. Social and environmental responsibility is a company obligation that is budgeted and calculated as a cost that must be incurred by the company. In this law, there is no discussion about the incentives that companies will get when they carry out CSR.

Compared to other countries, the difference can be seen in terms of the set regulations. Developed countries have made ESG disclosure as a mandatory regulation for companies listed on the stock exchange, and it proves that there is a positive impact given by ESG disclosure on company performance. This is also supported by the provision of incentives such as tax incentives which are considered as a reward for the company [12].

Meanwhile, in Indonesia, ESG disclosure is still voluntary, only a few companies participate in ESG disclosure. This is due to the lack of pressure from the regulator. In addition, the differences in the context of governance in developed and developing countries cause research results in developed countries do not to fully represent the conditions found in developing countries. Therefore, it is important to understand the differences in characteristics in developed countries where research takes place and developing countries.

The relationship between ESG disclosure and company performance cannot be fully described, ESG is one of the company's long-term strategies [1]. So indirectly it can be seen that the relationship between ESG disclosure and the current company’s performance in Indonesia is still negatively related because these companies have not received long-term returns yet from their efforts.

Competitive advantage has a positive but not significant relationship to firm performance in models I and II and has a negative and insignificant relationship to firm performance in models III and IV. When competitive advantage is associated with ESG disclosure, competitive advantage has a positive relationship with ESG disclosure and insignificant. In models III and IV when competitive advantage is
treated as a moderating variable, competitive advantage strengthens the relationship between ESG disclosure and company performance. This follows the reference journal [1] if it is significant.

ESG disclosures focus on non-financial information such as consumer satisfaction, market acceptance, and social value, which support companies to focus on activities that support certain communities and reduce their focus on bottom-line financial figures [4][13]. Companies that have a highly competitive advantage can be associated with lower investment costs because the company has a long-term sustainability plan [14]. Companies that have an association between ESG disclosure and sustainable activities such as starting to replace the use of coal energy with renewable energy will increase the value and performance of the company in the long-term [4].

4. Conclusion
From the results of this study are empirical evidence of ESG disclosure impact on company performance by using data of 52 listed companies on the Indonesia Stock Exchange 2015-2019 period. This study also examines the effect of competitive advantage in influencing the relationship between ESG disclosure and company performance.

ESG disclosure has a negative impact on company performance in Indonesia in the year of 2015-2019. This illustrates that the better the company is in disclosing ESG, the company's performance will decrease. ESG disclosure is measured using two components, the ESG score and the environmental score.

The company's competitive advantage moderates the positive but insignificant relationship between ESG disclosure and company performance in Indonesia in the 2015-2019 period. This means that competitive advantage can strengthen the relation between ESG disclosure and company performance. Competitive advantage is measured by ROIC (return on invested capital) reduced by WACC (weighted average cost of capital)

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