ESG DISCLOSURE TO FINANCIAL PERFORMANCE WITH STOCK PRICE VOLATILITY AS A MODERATION VARIABLE

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ABSTRACT

This research aims to determine the moderating effect of stock price volatility on ESG Disclosure to Financial Performance. Disclosures made by companies, both financial and non-financial disclosures, are certainly an important indicator in assessing and evaluating company performance. The sustainability report published by the company is one of the considerations investors should consider before buying company shares. Analysis Method used is descriptive statistical analysis and classical assumption tests. The data analysis technique used is multiple linear regression and the MRA test. The research results show that stock price volatility moderates the relationship between disclosure and financial performance.

Keywords: Environmental; Governance; Financial Performance; Social; Stock Price Volatility

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh moderasi volatilitas harga saham terhadap Environmental, Social, and Governance (ESG) Disclosure *terhadap kinerja keuangan. Pengungkapan yang dilakukan perusahaan, baik pengungkapan finansial maupun non finansial tentunya menjadi indikator penting dalam menilai dan mengevaluasi kinerja perusahaan. Laporan keberlanjutan yang diterbitkan perusahaan menjadi salah satu pertimbangan yang harus dipertimbangkan investor sebelum membeli saham perusahaan. Metode analisis yang digunakan adalah statistik deskriptif dan uji asumsi klasik. Teknik analisis data yang digunakan adalah regresi linier berganda dan uji MRA. Hasil penelitian menunjukkan bahwa volatilitas harga saham memoderasi hubungan antara pengungkapan dan kinerja keuangan.*

Kata Kunci : *Lingkungan; Tata Kelola; Kinerja keuangan; Sosial; Volatilitas Harga Saham*
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INTRODUCTION

Whether a company's financial performance is good or not can be seen by analyzing the company's financial reports, which in the future will influence the decisions the company will make for the company's sustainability (Hidayat, 2021). One of the measurements used to measure a company's financial performance is the company's profitability. Profitability is a company's ability to generate profits that can be used to pay off debt or loan interest (Hariyani, 2021). Companies with high profits are defined as having the ability to meet internal funding, which will be used to support operations (Sari et al., 2021).

In recent years, many companies have paid less attention to environmental problems such as the use of natural resources, the declining quality of water resources, and increasing global warming. Indonesia's Environmental Quality Index (IKLH) has increased in 2021. The Ministry of Environment and Forestry (KLHK) recorded that IKLH points in 2021 were 71.43, an increase of 1.16 points from 70.72 in 2020. Points for IKLH are set in the National Medium-Term Development Plan (RPJMN) at 68.96 points, according to the Director General of Environmental Pollution and Damage Control (PPKL) KLHK Ir. Sigit Reliantoro, achieving the IKLH target is one of the criteria for evaluating environmental development performance in the region. Since 2015, the IKLH score has tended to increase, although there was a decline in 2016 and 2018. A sharp increase occurred in 2020 from 66.55 points in 2019 to 70.27 points.

Apart from understanding the environment, another understanding underlies social disclosure, which is often considered the core of business ethics, meaning that companies have economic and legal obligations and stakeholders. Social disclosure is considered capable of influencing company performance because an investor will be more interested in companies that also pay attention to the welfare of the company's stakeholders (Setiawati & Lim, 2018).

Besides social disclosure, implementing good governance is expected to increase investor confidence in the Company (Wardani et al., 2022). Corporate governance is necessary for organizations because considering a corporate governance system will help build shareholder trust and ensure that all stakeholders are treated equally (Sitanggang & Ratmono, 2019)

One mechanism to reduce this conflict is the implementation of GCG, which regulates the rights and obligations of stakeholders in a balanced manner so that company goals can be achieved. According to general guidelines, GCG in Indonesia has five main principles: transparency, accountability, responsibility, independence, and fairness (Nurfauziah & Utami, 2021).

The sustainability report published by the company is one of the considerations investors should consider before buying shares in the company. Shares are securities often traded on the capital market and can be held in the short or long term. Before investing, an investor is expected to analyze the company's internal and external aspects. One of the indicators of a company's performance is the share price because the more stable the share price, the less risk there is, so investors will be more interested in investing in the company (Andrea & Santioso, 2022).

Changes in share prices occur due to demand and supply between sellers and buyers of shares. Demand for shares will increase when demand is high and vice versa. This rise and fall in share prices is called share price volatility—special investment activities for public companies through the Indonesian Stock Exchange (BEI). Investment is an investment in a company expecting a profit (Andrea & Santioso, 2022).

Stakeholder theory refers to the interests of all internal or external relations for

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the company and managing all relationships that encourage the company to survive because sustainability is an essential goal (Donaldson & Preston, 1995). Instrumental interests in stakeholder theory: If the company can manage relationships with stakeholders appropriately, its financial performance can improve over time (Freeman, 1999). Therefore, personal interests can motivate sustainability practices and increase profits and shareholder value (Harjoto et al., 2014). Thus, managing stakeholder relationships can produce a competitive advantage (Barnett & Salomon, 2006).

Several previous studies have tested the effect of ESG on a company's financial performance. There is a positive and significant influence between ESG disclosure of the financial performance of the company proxied by return on assets (Ghazali & Zulmaita, 2020; Sarnisa & Djasuli, 2022; Almeida & Darmansya, 2019; (Safriani & Utomo, 2020) Zhou & Zhou, 2022; Huang, 2021). It differs from research that produces disclosure. ESG does not affect the financial performance of companies proxied by ROA (Husada & Handayani, 2021; Buallay, 2019).

Research conducted by Taha et al. (2023) states that stock price volatility significantly influences the sustainability of a company's financial performance. It differs from research conducted by Estuti & Hendrayanti (2020), who state that stock price volatility shows insignificant results in Performance companies. The research results need to be more consistent, so the aim of developing this research is to empirically test the influence of ESG Disclosure on financial performance moderated price volatility.

METHOD

The method used in this research is quantitative. Quantitative research methods are research methods that are based on the philosophy of positivism and are used to conduct research with specific populations or samples, collect data using research instruments, and perform quantitative or statistical data analysis, while the aim is to test previously established assumptions (Sugiyono, 2018). The population in this study comprises companies listed on the Indonesian Stock Exchange and Bumi Global Karbon (BGK)Foundation for the 2021 period, and there are 766 companies (Table 1). In this study, a sample was determined from the total population, and sampling used type probability sampling with the purposive sampling technique. The analysis used is multiple linear regression, an analytical tool used to determine whether or not there is a significant influence between the independent and dependent variables. Moderate regression analysis (MRA) tests the linear regression equation as a control for its effect on the moderating variable.

Table 1. Research sample criteria

No	Criteria	Sample
1.	Companies listed on the Indonesian Stock Exchange (BEI) in 2021	766
2.	Companies that are not registered with Bumi Global Carbon (BGK) Foundation and publishing ESG scores	(640)
3.	Companies that did not experience losses for the 2021 period	(23)
Total sample		103

The independent, dependent, and moderating variables explained above can be explained again through the operational definition of each variable (Table 2). The aim is to explain the concept of variables and measuring instruments. Therefore, the variables described above can be identified for operational definitions in research as follows:

Table 2. Operational definition

No	Variable	Variable Definition	Measurement	Scale
1.	Financial Performance (Y)	Determining the size of a company is essential to see the level of success in generating profits(Angelina & Nursasi, 2021).	Return On Assets $ROA = \frac{Net\ Income}{Total\ Assets}$	Ratio
2.	Environmental Disclosure (X1)	Forms of communication-related to the company's non-financial environmental effects on stakeholders and shareholders (Almeyda & Darmansya, 2019)	Environmental assessment score by BGK Foundation https://bgkesgindex.com/	Ratio
3.	Social Disclosure (X2)	Disclosures related to consumers are related to products, business ethics, and how to protect human rights (Abdi et al., 2020).	Social assessment score by BGK Foundation https://bgkesgindex.com/	Ratio
4.	Governance Disclosure (X3)	It is a set of processes, structures, and systems for better company growth (Almeyda & Darmansya, 2019).	Governance assessment score by BGK Foundation https://bgkesgindex.com/	Ratio
5.	Volatility Stock Price (Z)	The higher the level of change in share prices in a certain period, the higher the share price, the higher the risk of making a profit (Neelanjana & Hassan, 2019).	$PriceVol = \sqrt{\in \frac{(H-L)/(\frac{H+L}{2})^{\;2}}{n}}$ (Baskin, 1989)	Ratio

RESULT AND DISCUSSION

Descriptive Statistics

The data used for this descriptive analysis was 103 during the 2021 period. The descriptives used in this research include minimum value, maximum value, average value (mean), and standard deviation resulting from research variables. The descriptive statistical test results are in Table 3.

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Table 3. Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
Environmental	103	2	96	30,82	25,608
Social	103	5	96	29,25	21,366
Governance	103	10	94	32,16	20,484
VHS	103	0,14	1,71	,5859	0,32196
Financial Performance	103	0,03	52,00	6,2575	7,79301
Valid N (listwise)	103				

Based on statistical testing results using 103 research data samples during 2021, it can be seen that the minimum environmental disclosure is 2% for the company PT Bank Mayapada Internasional Tbk. As for the maximum value of 96% for the company PT ABM Investama Tbk. The average value for variable environmental disclosure is 30.82%, with standard deviation amounting to 25.608%.

The minimum value of the variable social disclosure is 5% in the company PT Jasa Armada Indonesia Tbk. The maximum value is 96% for PT Bank Rakyat Indonesia (Persero) Tbk. The overall average rating is social disclosure, which is 29.25% in value. The standard deviation amounts to 21.366%.

The research's governance disclosure has a minimum value of 10% for the company PT Bumi Serpong Damai Tbk and a maximum value of 94% for PT Bank Rakyat Indonesia (Persero) Tbk. Based on the minimum and maximum values, it produces an arithmetic average or mean of 32.16% with an average deviation of 20.484%.

Share price volatility is at a minimum of 4% for PT Bank Mestika Dharma Tbk. Meanwhile, the maximum value for PT Bank Mayapada Internasional Tbk is 49%. The maximum value means that the level of company share movement is 0.49 for PT Bank Mayapada Internasional Tbk. The average value is 16.96%, with a standard deviation of 9.267%.

Financial performance with a minimum value is the company PT Solusi Bangun Indonesia Tbk of 0.03%. Meanwhile, the maximum value for PT Saratoga Investama Sedaya Tbk is 52%. The average value for this variable is 6.3076%, while the standard deviation is 7.76389%.

Table 4. Test results statistics

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	8,119	0,322		25,239	0,000
ENV	0,110	0,010	1,339	10,906	0,000
SOC	-0,070	0,013	-0,713	-5,492	0,000
GOV	-0,113	0,014	-1,105	-8,389	0,000
VHS	0,029	0,013	0,130	2,345	0,021
Dependent Variable: Financial Performance					

Source: Secondary data processed by SPSS 25 (2023)

Environmental Disclosure Influences Financial Performance

Environmental disclosure has a positive influence on financial performance. Financial performance will increase until the company presents more environmental disclosure in its annual reporting. A company's environmental performance is also influenced by several factors, such as customers or consumers who want clean products without damaging the environment and use them with environmentally friendly disposal (Zainab & Burhany, 2020).

Companies that produce good environmental performance will receive more consumer attention, encouraging increased sales and impacting company performance. Efforts to improve value The company is carried out by using modern technology, reducing costs, conducting mergers and acquisitions, and using resources effectively and efficiently. These efforts are made to provide maximum results for stakeholders (Chasbiandani et al., 2019).

It is in line with the theory of stakeholders, which states that increasing company attention to relationships with stakeholders can support the sustainability of company operations so that the company can maximize its level of profitability in the future (Hidayah et al., 2020). Environmental disclosure has functions: It is a medium of communication between the expectations and needs of stakeholders towards the company and a form of corporate responsibility in managing its impact and contribution to the environmental space (Ghazali & Zulmaita, 2020). This is in line with research conducted by Zainab and Burhany (2020), Chasbiandani et al. (2019), and Irfansyah et al. (2018), who stated that environmental disclosure influences financial performance.

Social Disclosure Influence on Financial Performance

Social disclosure has a positive influence on financial performance. Social Disclosure will benefit the company's micro and macro performance. Macro performance defines environmental development and balances it with social equality. On the other hand, microperformance describes an increase in status, the potential to control the quality of product services, and an increase in the ability to obtain quality human resources. The company's primary goal is to maximize justifiable profits in social disclosure. The concept of environmental disclosure was formed with the aim of public welfare. So, this social disclosure will impact all involved (Tasnia et al., 2020).

This research explains the abilities of social disclosure to influence financial performance. Presentationsocial disclosure, which is increasingly in sustainability reports, will cause financial performance to decline and vice versa. It is because investors assess that implementing social disclosure can increase agency costs, which wastes company resources. So, the cost increase for social disclosure must also be followed by financial performance ratios (Mukhtaruddin et al., 2019).

Social performance in a company is related to the involvement of the community around the company. It follows the stakeholder, which explains the relationship between stakeholders and the company and is also based on the legitimacy theory, which explains the relationship between the company and society. The stakeholder theory considers the welfare of the community around which the company operates and emphasizes the welfare of the community regarding the company board, stakeholders, such as employees, customers, and the community (Freeman &Dmytriyev, 2017). In addition, legitimacy theory explains that it relates to company behavior in fulfilling social and environmental responsibilities to society to achieve company goals by gaining stakeholder trust and protecting the company from unstable conditions (Burlea, 2013). It is in line with research conducted by Mukhtaruddin et al. (2019), Zahroh & Hersugondo (2021), Hutasoit & Sembiring (2020), and Sitanggang & Ratmono (2019) stating that social disclosure has a significant negative effect on financial performance.

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Governance Disclosure Influences Financial Performance

Governance disclosure has a negative effect on financial performance. As more governance Disclosure is presented by the company in its annual reporting, financial performance will decline, and vice versa. It can be caused by the decline in investor confidence in the implementation of GCG by companies in Indonesia due to the emergence of cases of abuse of authority. Hence, implementing GCG in a company does not guarantee an increase in investor valuation.

These findings are different from stakeholder theory, where good relations should be established between stakeholders in the scope of corporate governance, such as the highest management body, board of commissioners, or government, can support the sustainability of the company in order to maximize financial performance (Ghazali & Zulmaita, 2020).

Good Corporate Governance (GCG) disclosure in companies is still low because many companies have yet to discuss further topics or disclose information about more supportive corporate governance. Topics such as violation reporting mechanisms (whistleblower), evaluation of the highest governance body's performance, remuneration policies and strategies, and anti-communication Corruption are often kept from sustainability reports. It can also indicate that the company still needs to fully implement GCG properly (Ghazali & Zulmaita, 2020). It is in line with research conducted by Mukhtaruddin et al. (2019), Sitanggang & Ratmono (2019), (Mumtazah & Purwanto, 2020), and Zahroh & Hersugondo (2021) stating that governance disclosure influences financial performance.

Environmental, Social, and Governance (ESG) Simultaneously Influence Financial Performance

In this study, the simultaneous test (F) was used. The analysis results show that the calculated F value is 29.778, and the significant probability value is 0.000, less than 5%. Thus, environmental, social, and governance factors can influence financial performance jointly.

This research explains the abilities of ESG to influence financial performance. These results align with Stakeholder theory, which assumes that the existence of Stakeholders can influence the sustainability of company operations through the support and trust that has been given and can increase the level of company reputation so that superior performance is expected to be achieved. So there are more and more ESG presented by the company in its annual reporting financial performance will experience an increase (Nugroho & Hersugondo, 2022).

The research results were found to be similar to the results of research by Safriani and Utomo (2020), who used ESG Disclosure as one unit. This research shows a positive and significant influence of ESG Disclosure on the Financial Performance company proxied by ROA. The findings of previous research and the results of research conducted now show harmony with stakeholder theory, where a company cannot prioritize shareholders alone or only one party but needs to establish business relationships or partnerships with all stakeholders, such as the community, employees, government, environmental associations, and others in carrying out its business operations.

Having good relationships with all stakeholders can create a better operational ecosystem for the company and grow progressively so that financial performance improves, impacting greater profits (Ghazali & Zulmaita, 2020). Environmental, Social, and Governance (ESG) Disclosure impacts natural resources and environmental welfare. This problem creates awareness of the importance of ESG disclosure. Disclosure of ESG information can be an indicator in assessing and evaluating a company's performance results while carrying out its operational activities and exploring the impacts arising from these three aspects. Corporate sustainability reports present corporate values and governance, their relationship to the company's strategy, and their commitment to a sustainable global economy. Publishing company sustainability reports will make measuring and communicating environmental, economic, and social conditions easier to increase accountability and transparency (Sarnisa & Djasuli, 2022).

Environmental, Social, and Governance (ESG) Influences Financial Performance, with Stock Price Volatility as a Moderating Variable

Share price volatility was able to moderate ESG against financial performance, in line with research conducted by Taha et al. (2023), which states that. Operational share price volatility will grow with increased financial performance. The price, volume, and trading frequency formed in the market become a picture related to the information available in the company. Investors will act quickly when they get information related to the financial performance of a company and will make adjustments. Investors prefer to see how actively a company's shares are traded on the capital market (Rosyida et al., 2020).

The operational movement of company shares will develop with increasing financial performance. The stock price, volume, and frequency of stock trading formed in the market become a picture related to existing information. An investor will act quickly when they receive information related to the company's financial performance and will make adjustments. Investors prefer to see how actively company shares are traded on the capital market (Rosyida et al., 2020).

Stakeholders support the company's ESG performance, and any unresponsive ESG activities can harm the company's financial performance, which can reduce share price volatility. Companies with large sizes have several competitive advantages compared to companies with small sizes. Company investment in activities can help companies increase stakeholder trust and be socially and environmentally responsible (Shakil, 2020). It is in line with research conducted by Taha et al. (2023), Shakil (2020), Zhou & Zhou (2022), and danDevie et al. (2020), which states that share price volatility can moderate the environmental, Social, and Governance (ESG) against financial performance.

CONCLUSION

Based on the results of this discussion, this research can conclude that ESG *Disclosure* significant*ly affects financial performance*. The company's ESG *disclosure* in its annual reporting shows that financial performance will increase and raise its reputation so that superior performance is expected to be achieved.

Environmental disclosure has a significant effect on *financial performance*. It can be caused by consumers who want clean products that do not damage the environment and are used with environmentally friendly disposal. This result differ*s from social disclosure, which is* influential and significant in a negative direction toward *financial performance*. It could be because investors assess that implementin*g social disclosure* can increase agency costs, which wastes company resources. Decreasing levels of consumer trust in the company and implementing the concept *of* GCG *disclosure* in companies are still considered. Many companies still need to discuss further topics or disclose information about more supportive corporate governance.

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Stock price volatility can moderate the influence *of* ESG *Disclosure on the Financial Performance of a* Company. *Environmental, Social, and Governance* (ESG) disclosure will influence *financial performance* strengthened by stock price volatility movements. A way that investors assess companies is by using ESG disclosures. Rising stock price volatility will increase investor interest so that *financial performance* will increase.

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